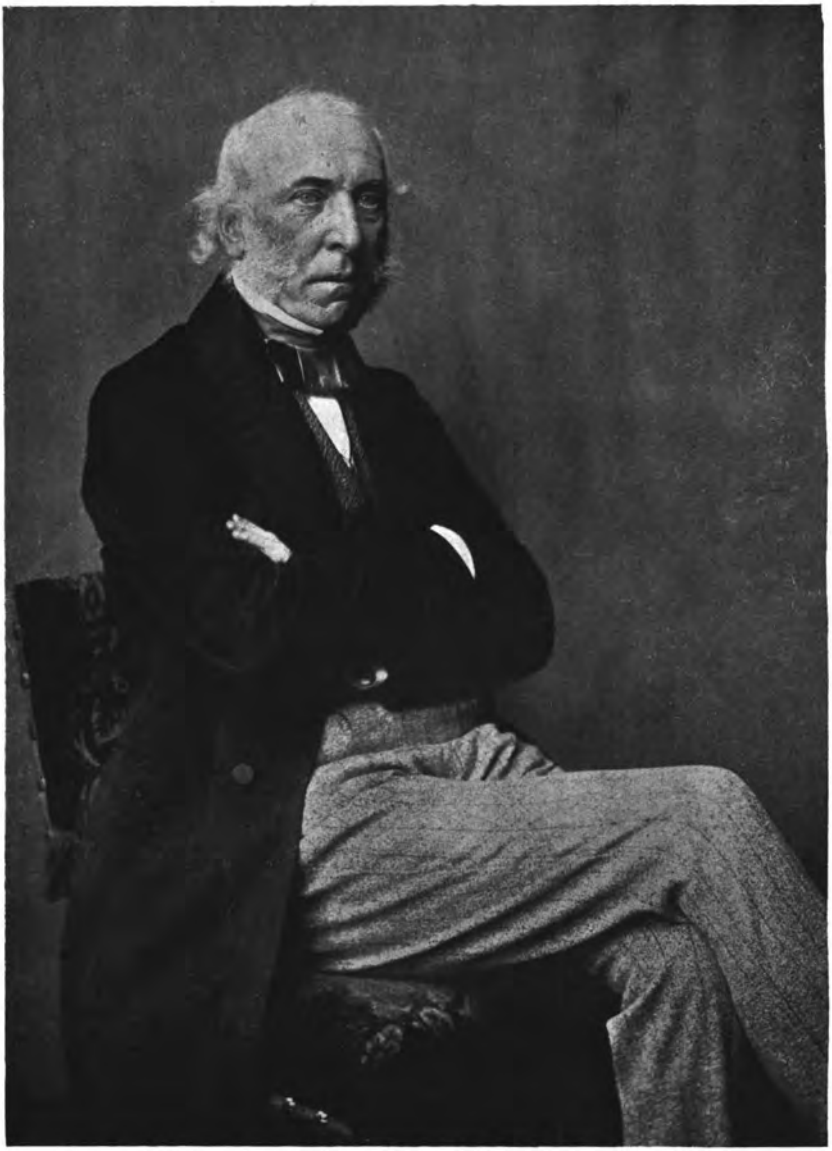
MONEY POWERS OF EUROPE

IN THE

NINETEENTH AND TWENTIETH CENTURIES



[*Photo: The Rischgitz Art Studios*

SAMUEL JONES LOYD, LORD OVERSTONE

[*Frontispiece*

MONEY POWERS OF EUROPE

IN THE

NINETEENTH AND TWENTIETH CENTURIES

By
PAUL H. EMDEN

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[1937]

To

THE WIFE

WHO HAS BORNE WITH ME FOR

TWENTY-FIVE YEARS

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THE SCOPE OF THE BOOK

WALTER LEAF, the distinguished former head of the Westminster Bank, once claimed that there were three main causes which disposed men to madness: Love, Ambition and the study of Currency Problems, and he added that the last named was the worst. Speaking in the same strain the very judicious Ludwig Bamberger, co-founder of both the Reichsbank and the Deutsche Bank, is responsible for the phrase that it was about two things that people lose their wits and go mad: Love and Bimetallism.

To become entangled in one of these venturesome problems the reader will run no risk; for not even once is the discussion in this book turned upon Bimetallism or Currency Problems and most assuredly not upon Love (occasionally perhaps upon Ambition). The author has been able to avoid the necessity of taking any side in the homicidal struggle waged over financial and economic theories, for an obvious reason: he has not even lightly touched upon these problems and neither the theory nor the practice of finance is discussed. *What has happened* during approximately the last hundred and twenty years *in the world of high finance*, and how it could happen, is sketched in outlines, and the men who played an important and decisive part in these happenings are portrayed. *This book* in short, *deals with men and events*, and the author has tried honestly to penetrate into the deeper relationship, both historical and financial, underlying the collaboration of frequently independent individuals towards a great aim.

From the autumn of 1935 until the summer of 1937 the author has worked on the book; in spite of this considerable time he would have been unable to finish with his quest if

he had not been in the lucky position of meeting the well-tried assistance of old friends and of new ones acquired during the course of his task. Thus the author is indebted to many, foremost to *Miss Luise Lauer* who once again came forward with her ready and extensive knowledge of such diversified fields of scholarship. *Miss Joan Joshua* was good enough to read the type-script as far as the chapter of Carl Fuerstenberg; her criticisms and suggestions and those of Miss Lauer he found most helpful. *Mr. H. N. Whiskin* kindly undertook to read the type-script of the later chapters and *Mr. G. Kirch*, the friend for auld lang syne, helped to read the proofs. Gratefully the author records the gracious help *Miss I. Shrigley*, Librarian of the Institute of Bankers, has rendered him. Nor must he forget *Mr. M. L. Philippsohn*, his old friend in Amsterdam, who, with the experience of an international banker, was able to give valuable information. To *Messrs. Sampson Low, Marston & Co.* he is indebted for their understanding and patience and to *Mr. N. St. Barbe Sladen, F.R.S.L.*, who took immense pains to further the completion of the book. With touching tolerance the inquiries the writer made were answered by friends and strangers, and so the list of his indebtedness is extensive. But much as he owes to these accessories before the fact, for every line of this book he alone must take the responsibility.

On the other hand the author is unable entirely to suppress some observations—it even seems to him that as a conscientious writer he would be wrong in suppressing them—and so to his regret he must confess that in some direction where he believed that he might have looked for assistance, he found ungraciously locked doors.

Howsoever this book may be judged—it is the contention of the present writer that in many (modesty forbids to say most) chapters he has walked over hitherto untrodden, and certainly not tedious paths, and that most of the important men portrayed in this book have never been approached before from a biographical point of view. Posterity has always placed the soldier in the forefront, followed after

an adequate interval by the statesman; for financial achievements history has but scant appreciation. Finance is often regarded as an easy way of acquiring wealth without adequate service rendered in return. In reality the possession of wealth does not make a man a financier and assuredly not a money power.

At all times there have existed poor and rich and families whose power was in their money. Money powers, however, in to-day's meaning, could originate, become prominent, and, later, international only after the progress of locomotion began to facilitate connections; money powers are, like so many other comtemporary social forces, a product of the nineteenth century, which, in so various ways, brought about deep and far-reaching changes, one of the most important being that organisation came to take the place of individuality. In the same degree as the machine eliminated the personality of the worker and made possible the greatest concentration of mechanical power, so the joint-stock banks made possible the greatest concentration of capitalist power.

The ingenious and early forgotten Arthur Helps (in his biography of Thomas Brassey) stated that "both reader and author have but one and the same object: namely to get at the truth in regard to a person, or matter, of which it is worth while to know the truth," and the present author asserts that he for his part has spared no exertion to comply with that ideal. He must also confess that Samuel Butler's witty remark "I do not mind lying, but I hate inaccuracy" has deeply impressed him.

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MONEY POWERS OF EUROPE

FINANCING THE NAPOLEONIC WARS

"It will be a short war and certainly ended in two or three campaigns," Pitt said, shewing thereby that he did not correctly appreciate the situation; Burke's prophecy, "It will be a long and dangerous war," was truer, as for two and twenty years, from 1793, war had been waged almost unceasingly on land and water against an enemy whose name was first the French Revolution and subsequently Bonaparte (in addition to which there had been from 1812 to 1814 the conflict with the United States). At last, on the 18th of June, 1815, Wellington had finally broken the power of Napoleon, the most powerful enemy England had yet known.

Side by side with the war proper was organised a commercial struggle on a large scale. The blockade was exceedingly well calculated and directed at the very point where England was most vulnerable; Napoleon's intention was to exclude her from the European market, to destroy her credit, and by means of a social revolution to break up the State from within—his attack was trained on the gold reserve of the Bank of England. Before mobilizing his enormous forces he had most carefully studied the foundations of British finance and commerce, and yet he made a grave mistake—perhaps his gravest—and his scheme miscarried utterly. The important question in a campaign is not who wins most often, but who wins last, and so England emerged triumphant.

But before matters had proceeded thus far, the country had been compelled to accomplish in financial affairs deeds

no less heroic than those performed on the battle-field and by the Fleet. It is true that the ease with which the gigantic burden was borne excited the admiration and envy of all Europe, but the results were not achieved quite so simply as appearances led onlookers to believe, and there were times when England's sufferings were almost overwhelming. The huge cost of the war, the enormous sums which had to be found for interest on the rapidly growing National Debt and the payment of subsidies to Foreign Allies, could not be met without the utmost exertions on the part of the working section of the population. From 1805 the country had to raise in taxes and for interest on loans never less and often more than a hundred million a year, and in 1813 the amount even rose to £176,346,023 —a burden almost unthinkable for a country whose inhabitants then numbered under twenty million. Recourse was had to every kind of financial acrobatics in order to find the most urgently needed funds, and not infrequently it became necessary to resort to the youthful Sinking Fund.

Everyone had to work much harder than ever before; by this means industrial production was increased, and as the British Fleet was the undisputed mistress of the seas, it was possible to extend markets farther and farther. By the introduction of power looms into the woollen and cotton mills, by the use of steam-driven machinery, technicians had rendered outstanding services, thanks to which it was possible to produce more efficiently. Nor did the whole of the amount raised by taxation and loans go up in the smoke of gunpowder, for vast sums were employed in industrial labour. Furthermore, in order to wage war Europe had to have money, and there was only one country which could supply it—England: the strongest of the powers allied against Napoleon was the power of British finance. But this country was very wise; she did not lend, she gave, and in place of loans granted subsidies—a much simpler transaction, which at the same time eliminated possible disappointments; and the very cautious Pitt paid his

subsidies for the most part not in cash but in ammunition, clothing and other equipment. In this way, by a fortunate combination of prudence and luck, England managed to survive the war, Napoleon's blockade scheme and her own financial difficulties.

But peace did not bring plenty; it sobered and disillusioned, and much wringing of hands accompanied the complaint that "a transition from a state of extensive warfare to a system of peace has occasioned a stagnation of employment and a revulsion of trade." With the cessation of hostilities the huge orders for military supplies dropped off, the armies were no longer vast consumers of the increased agricultural produce. The merchants who up to now had been able without fear of competition to dispose of all their goods of every kind both at home and abroad, suddenly found themselves with enormous stocks on their hands of which for the time being they could not dispose, and as the purchasing power of the Continental nations had decreased very considerably, it was impossible in the near future to count on them as potential buyers. At the same time the fact that they were cut off from the rest of the world had forced these countries to improve their own technical processes; as regards iron and cotton they remained dependent upon England, but in other industries, beginning to export on their own account, arose an unpleasant competition, which made itself felt in the world markets. Accordingly, at the end of the war the new industrial organisation which had grown so considerably found itself to an appreciable extent without customers, and at home a dislocated budget and inconvertible depreciated paper currency gave rise to the most serious reflections, with the result that the nation was faced not with the expected boom, but, for the moment, with a crisis.

Compared with the rest of Europe, however, conditions in England were absolutely brilliant; there had been no invasion, and the internal economic structure had gained quite enormously in strength. Even though recovery was

slow and for a time impeded by an unfortunate social policy which gave rise to numerous riots, yet it was thorough, and the foundation was laid for the future outstanding importance of the City of London.

Every economic centre of Europe was disorganized by the prolonged war, not least Amsterdam, which, in the seventeenth and eighteenth centuries had been the focus of the world's trade and consequently also of the money turn-over. The Napoleonic Wars had taught the world a lot, chiefly that England was the only safe country. And so the world's disillusioned and timid capitalists now hastened to London; "Away from Amsterdam" and "Away from Paris" became the slogan, as they turned to the country whose mercantile marine carried by far the greatest part of the world's cargoes and had business relations with all, even the most distant parts, of the globe. It was not merely that the City of London, so to speak, got level with Amsterdam, but rather that it assumed a position never yet occupied by any town in the history of trade and commerce. International capital was deposited in English banks and invested in English undertakings and English funds; London became the clearing house for international settlements, Consols *the* gilt-edged security; and sterling, synonymous with gold, became the standard currency of the world.

FINANCING THE PEACE

THE OUVRARD—BARING—HOPE COMBINE

To put France in a position to pay a war indemnity was the first great task facing a Europe at last at peace, and in the solution of this problem every country, England above all, was interested. For the first time in history, therefore, finance became an international affair; it did not become completely cosmopolitan until after the Crimean War, but the age of international loans had begun.

If we compare the state of Europe in 1815, after a war of twenty-two years, with that in 1918, after a struggle lasting a bare four and a quarter, we must, even without delving too deeply, come to the conclusion that in those days conditions were extremely satisfactory. As no country had a properly developed banking system—banks as we understand them to-day did not, in fact, exist at all—the accumulated reservoirs of movable capital were not yet at the disposal of the Governments, and consequently statesmen were not able either to use or to abuse those resources for the purposes of war. England, the paymaster of Europe, had shouldered an enormous load of debt, and in addition had, in order to make them useful allies, financed most of the other countries (not, be it observed, without profit to herself), yet in spite of all this had with astounding rapidity extricated herself from her sore distress. As early as 1817 a beginning was made with the redemption of the smaller notes, and a new gold coin, the sovereign, was introduced; the guinea, vanished in 1797, survived only on paper: in professional fees and the bills of fashionable dressmakers.

In the spring of 1819 the younger Sir Robert Peel was elected chairman of the Currency Committee appointed to devise a way out of the monetary troubles. During the discussions on this financial question differences of opinion arose between the father—the elder Sir Robert, who took his stand on a more absolute system of inconvertible paper currency, and the son, who feared that this would entail still greater injury to trade than the inequality existing between the paper pound and the gold pound. In the Commons the older politician rose to put his views before the House. "To-night I shall have to oppose a very near and dear relation," he explained, "but, while it is my own sentiment that I have a duty to perform, I respect those who consider that duty to be paramount to all other considerations . . . though he is deviating from the proper path in this instance, his head and heart are in the right place, and I think they will soon recall him to the right way." The son replied, in the speech with which he introduced his Bill, "Many difficulties presented themselves to me in discussing this question. Among them is one which it pains me to observe—I mean, the necessity I am under of opposing myself to an authority to which I have always bowed from my youth up, and to which I hope I shall always continue to bow with deference."[1] His Bill was carried, and owing to this—Peel's first Bank Act of 1819 (which was to be followed in 1844 by the real Peel Act) —the Bank of England resumed payments in cash, and a sound currency system was restored; Canning called this achievement "the greatest wonder he had witnessed in the political world."

In France the position was not happy, yet far from being as bad as people were inclined to think. Napoleon had been a past-master in the art of making the war pay its own expenses; but after the inflation policy of the various

[1] The author is aware that by giving this detailed description he has strayed from the straight road which he intended to follow into a side path, delightful as it may be. But the political controversy between father and son, fought out on the floor of the House, seemed to him to be a model of correct parliamentary discussion, and he could not bring himself to omit it.

revolutionary Governments and the sins of the *ancien régime*, the credit of the State seemed to have vanished altogether. At the start Louis XVIII was financed by England, and the much worried Herries—financial Herries, "the general purveyor of everything to everybody for every purpose"—groaned aloud when, at a time when home money was almost at its tightest and foreign currency still more so, he had to raise as best he could a hundred thousand pounds[1] in cash, notes or bills for the King's journey to his restored throne and for his first expenses. But hardly had Louis been installed and left to his own devices when he proved that the time of his exile had passed him by without profit, and that like all the other Bourbons he had really learnt nothing and forgotten nothing;[2] he did the most foolish thing possible for a man in his position to do—raised a compulsory loan of a hundred million francs from various of his wealthy subjects and thus forfeited all confidence and possibility of credit.

Europe, on the other hand, dealt more leniently with the vanquished country. The burden imposed on France was not too heavy to be borne: seven hundred million francs[3] were to be paid in five annual instalments, and although the last three years of the war had cost this country nearly two hundred million sterling, yet England only demanded a hundred and thirty-five million francs[4], a very moderate sum indeed, not even what the Chancellor of the Exchequer could raise in one day when he invited subscriptions to a loan. In addition to these "indemnities for the past" France had to produce as "guarantees for the future," another hundred and fifty million francs[5] a year towards the support of the Army of Occupation under the

[1] A further £100,000 was procured by John Charles Herries, at the time Commissary-in-Chief and in 1827 Chancellor of the Exchequer, on the instructions of Castlereagh, and handed to the new King on his arrival in Paris. Louis XVIII personally settled up for this £200,000 which was repaid with interest soon after the second Restoration.

[2] "Ils n'ont rien appris ni rien oublié" was the description which Rear-Admiral Panat applied to the Bourbons in 1796.

[3] frs. 700,000,000 equals £28,000,000, both at par.

[4] frs. 135,000,000 equals £5,400,000, both at par.

[5] frs. 150,000,000 equals £6,000,000, both at par.

command of the Duke of Wellington, who resumed the truly military point of view that in no case was the Army to remain in France to collect debts, its real task was to ensure the peace of Europe.

In spite of the modesty of these demands, where the money was to come from was at first a mystery; one thing and one only was clear—intrinsically wealthy but for the time being sucked dry, France could not raise out of her own resources the sums required.

In the very initial stages of the negotiations the possibility of a loan had been envisaged, but the scheme had been rejected, for it was thought possible that England herself might need the assistance of the money market, and besides, it seemed almost out of the question that anyone in his sober senses could be found willing to subscribe for a French Rente. The chances of payment of the war indemnity appeared indeed so remote that Metternich would have been only too pleased to sell the share allotted to Austria at thirty per cent. The Chancellor's pessimism looked like being justified: a single instalment was paid, and in 1816 France had come to the end of her money and her wits.

Talleyrand and his Finance Minister, Baron Louis, were followed however by Armand-Emanuel de Richelieu and Baron Corvetto, who understood finance, and with whom it was easier to negotiate, and now a man came to the fore who, with astounding eloquence and the gift of inspiring confidence, induced the Ministers to accept the principle that taxes kill and that debts give new life: that it is necessary to hypothecate the future in order to be able to survive in the present. Again and again he insisted that once France had got rid of her immediate liabilities, she would find confidence everywhere, and he eventually converted the dumbfounded ministers to the idea of borrowing abroad in order to pay debts abroad.

The man who propounded this in itself so simple but in those days completely revolutionary idea (adopted fairly

frequently during the next hundred years) was Gabriel-Julien Ouvrard, a man who had had experience of many financial battles and bore the scars of more than one of them.

In the Haute Finance of Paris no one, it is true, seriously believed that the Allies would consider themselves satisfied if they received bonds. Not till dire necessity knocked at the door and it was not even possible to raise and pay the current expenses for the Army of Occupation did Ouvrard's suggestion receive—if not approval—at least a hearing, and he was instructed, as a beginning, to procure sixty million francs. This he blankly refused to do: "No one in the world can at the present moment procure sixty millions for France," he retorted, "but the raising of a loan of a thousand millions, so that the claims of the Allies can be settled once and for all—that is child's play."

The next question which had to be, and was, addressed to him was who could possibly come into consideration for the purpose of undertaking and carrying out such a gigantic transaction. This difficulty also Ouvrard was readily able to solve; there was only one firm that could do it—Barings; through Hopes, his business friends in Amsterdam, he knew the house very well, he had often done business with them, and if he had any luck at all, Hopes themselves might possibly join in.

Now at last the matter had made a start, and the only thing left was to win the approval of the man on whose opinion so much depended in England, and whose word was final in the camp of the Allies—Wellington. The Duke came to Paris, stayed with Ouvrard, and on the 8th of January, 1817, the important and decisive conference took place; the loan was decided upon, and Ouvrard was instructed by Richelieu to carry it through.

Barings were willing and Hopes joined in; but as even these most experienced bankers were not quite sure how much the market might be willing to take, it was necessary to proceed slowly and most cautiously, and in 1817 a three

hundred and fifty million franc five per cent loan was offered at 53 per cent and immediately subscribed in full. There was proof that the credit of France might still be trusted; the new security was soon quoted far above the issue price.

Perhaps it would have been possible to achieve an even more striking success if the Baring-Hope combine had been willing to give a share in the transaction to the house which stood next to them in importance, but had at that time not yet fully stretched its wings. If the decision had lain with Alexander Baring alone, he would perhaps not have been so reluctant, but Ouvrard, and Labouchere, the head of Hopes, thought that they had adequate grounds for their refusal, and so Rothschilds remained outside. Their Paris branch was naturally most anxious to participate in this the greatest of all financial deals since the conclusion of peace; not merely because he wanted to make money, but because he felt that his prestige was at stake, James found it unbearable that he should be left out in the cold and tried every possible way of getting a share. When he had finally realized that the main stairway was definitely closed to him, he entrusted his intimate business friend David Parish with the rather thankless task of getting him admitted by the back stairs; but this attempt likewise was doomed to failure. Nevertheless the Rothschilds made an enormous amount of money—perhaps more than anyone, if not out of the issue, yet out of the loan itself. They foresaw a huge success, had too much good sense to play the injured party, and consequently bought in enormous quantities everything that came on offer in the market; for this purpose they had at their disposal relatively large sums, since their safes still continued untransferred indemnity funds. And so France herself financed their speculation in French *Rentes*. Largely as a result of these purchases quotations rose from 53 to 66—a most welcome success for all concerned, but finally the proud combine was forced to realize that, by means of their enormous holdings, it was Rothschild who now controlled the markets. Thus they had shown what they were

able to achieve single-handed, and how dangerous they might be as enemies.

In the arrangements for the third instalment of the loan, which fell due in 1818 and amounted to two hundred and seventy million francs, Barings came off worse. It had been agreed that the Allies should receive roughly a hundred and sixty-five million in cash and the rest in *Rente* bonds which, when the quotation stood at 74, the combine had agreed to take up at 70, so that there seemed to be a chance of a not inappreciable profit. The many issues, however, had followed too closely on one another, and had robbed the market of its resilience, and if a strong hand which did not care about the combine or its well-being should conceive the idea of trying to upset quotations, anything might happen, especially if the seller had enough bonds at his disposal to make delivery. A cleverly engineered bear attack did in fact meet with complete success; in less than a week the French loan had dropped from 74 to 68—that is, below the price at which the Combine had bought, and Alexander Baring began to think that after all it might have been wiser not to have listened to Ouvrard and Labouchere, but to have allied himself with James de Rothschild.

It goes without saying that if the worst had come to the worst Baring would have been able to keep to the conditions of his contract, but to carry out a transaction which from the outset was bound to end in a loss was far from his intentions, nor did it agree with his principles as a financier. Unwilling to impugn his bargain, he managed to find a very adroit way out of his dilemma; twice the issue had been a brilliant success and the original applicants had made such exceptionally welcome profits without incurring the slightest risk that the majority of the allied statesmen, Metternich at their head, had taken an interest in this third issue also, to an extent which far exceeded their official one; to put it plainly—they had participated personally. This was where Baring cleverly put in his spoke: if he was expected to carry out his obligations, then he was entitled to demand a

similarly high conception of business morality from all his associates; so he made it clear to them that dealings on margin were permissible on a rising market only. Metternich raged a good deal, but Baring had the undoubted right to insist, and as none of the statesmen-stags was willing—or able—to pay up, new arrangements were made on a different price basis. But Metternich had a good memory, and something had departed from the glory of the name of Baring in Austria.

In spite of this set-back, the final settlement of the great war indemnity transaction was not long delayed. The five per cent French Loan, which in 1815 had fallen to its lowest at 52.30, rose in 1818 to 80.[1] As was to happen again in 1871, France had recovered with amazing rapidity; by 1818 the last penny had been paid, and since with the execution of the final receipt the peace of Europe was ensured —till next time—Wellington and the Army of Occupation could be recalled. Everybody was satisfied.

The only one who did not make anything out of the huge deal was Ouvrard. As had happened so often under Napoleon, so now the Bourbons charged him with fraud, and refused to pay his commission. The tragic fate of having brilliant ideas and of earning nothing for himself when they were put into practice accompanied Ouvrard all his life.

[1] In 1830 it stood at 110 per cent, whilst the 5 per cent French Rente rose between 1817 and 1830 from 57 to 110, English 3 per cent Consols were only able to recover from 62 to 90. The whole nation and the individual had in France a far lighter burden to bear than victorious England.

GABRIEL-JULIEN OUVRARD

An inscrutable character, spurred on by a keen spirit of enterprise, Ouvrard entered into gigantic transactions, provisioning of armies, negotiation of credits, control of banking—and rose to be a power of the first magnitude, but examined more closely he was merely a clever financier who resorted to the tricks of a flat-catcher. The opinions formed of him by his contemporaries were as poles asunder. Richelieu regarded him as his confidential adviser, Lamartine thought him one of the greatest of financial geniuses, Thiers suspected him of shameless common cheating. Each warned the other against him, then proceeded to do business with him. Seven times he was arrested, on one occasion spending five years in prisons. A princely position was followed by a disgraceful bankruptcy, but like a magician who is able to transmute ideas into gold he rose again, made another enormous fortune, and again lost it. In spite of all his gifts this man, a speculator by talent, conviction and profession, was unsuccessful because his imagination ran riot and he lacked all sense of proportion.

His aim at the start was merely his own personal advantage, but gradually he came to collaborate in all the great transactions of his time. First heard of in Paris toward 1793, when he was twenty-three, from that time onwards each of the many successive Governments was in some way or other compelled to come to grips with him. Being entirely free from political or dynastic prejudice, he financed the Hundred Days, then immediately after the fall of Napoleon placed his services at the disposal of Louis XVIII. The men of the Revolution, the Directory, the Consulate, the

Empire and the Restoration asked his advice, entreated his help, and then charged him with some crime and prosecuted him. He served, cheated, and survived them all.

Ouvrard was barely nineteen when he concluded his first speculation; using his father's credit he bought up all the paper he could get hold of in the neighbourhood of Clisson, his native place, and secured the whole output of the factories for two years. His calculations turned out to be correct, as during the Revolution the Press regained its liberty, the consumption of paper increased, and as at the same time the supply of labour decreased, prices soared. This first deal was followed by others in sugar, coffee and cotton, and by the time he arrived in Paris he was a millionaire several times over. Speculators in the necessaries of life, however, received short shrift in those days; the events of 1789, a year of famine, were still within the memory of all, and Ouvrard escaped this fate only by joining the Army. When the fall of Robespierre had put an end to the reign of terror, he managed to leave the army, and in the Rue d'Amboise, on the former business premises of Rougemont & Hottinguer, he in his turn opened a bank.

Conditions in France were very bad. The Revolution and the war had destroyed industry and commerce, taxes were impossible to collect, and debts were piled upon debts. The property of the Church and of the Nobility had been confiscated, but as the value of landed estate was nil, this proceeding could neither remedy the state of the Exchequer nor help the Government to obtain long-term credits. The former National Debt had been wiped out at one stroke and new notes, called *assignats*, were issued, but no one would have them, and their value sank so low that eighteen hundred francs in paper had to be paid for one louis d'or. There set in the greatest inflation the history of political economy had yet known (though even its ineffectual fires pale before the conditions ruling in Germany in the early 'twenties of the present century). The only man who made any practical suggestion for placing the note circulation

[*Photo: The Rischgitz Art Studios*

GABRIEL-JULIEN OUVRARD

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on a sounder footing was Ouvrard, but in those days he was too young and too unknown to find anyone to listen to him. He succeeded, on the other hand, in 1797 in capturing the greatest contract as yet offered by the Republic, the provisioning for several years of the French Fleet, and this transaction was followed by one still greater—the commissariat of the Spanish Fleet.

The Expedition to Egypt in 1798 entailed yet further financial difficulties for France; at the time of its greatest distress the Directory asked Ouvrard for ten million francs, which he procured at once. Simultaneously he submitted to the Government a new plan; "in order to be rid of its embarrassment," he informed then, "France needs a *Rente* indebtedness; . . . by means of an issue of irredeemable *Rentes* capital at present dormant will be mobilised and put at the disposal of industry; . . . only by following the example of England and treading the path of credit will France be able to escape bankruptcy." Napoleon, incomparable as statesman and soldier, but a poor economist, held diametrically opposed views; the only means of revenue for the State which he knew were taxes and conquest. He had no idea of what was meant by credit, and thought it was nothing but an illusion, an invention of theorists, and on the strength of this view he again and again prophesied the imminent collapse of England. Finance to him meant usury, but however much he might despise it, he could not get on without it, and when he wanted to start on his march across the Alps, Ouvrard was requested to find twelve million.

About this time, in 1800, Ouvrard stood at the very zenith of his power and was enormously wealthy, a Prince of Finance. His offices in Paris resembled a Ministry, his chief-of-staff was Cambacérès, the future Chancellor of the Empire and Prince of Parma, and "tout Paris" could be seen at his town house, the Palais Montesson, in the Rue de Provence, and at his country estate of Le Raincy, formerly the property of the Orleans. Depending upon the strength of his position he ventured a dangerous step: he refused

to find the twelve million and demanded repayment of the ten million advanced to the Directory.

Napoleon was not to be provoked with impunity. An inquiry was at once ordered; Ouvrard was charged with having defrauded the State in connection with his supplies to the Fleet. His books were confiscated, and he was to be tried by Court Martial. But he was too important a man, and far too urgently needed for proceedings to be carried to the bitter end; First Consul and banker came to terms and Ouvrard undertook the provisioning of the French Army which started out for Italy.

From this time onward a tragic-comic fate bound the two men together. Napoleon hated Ouvrard; after every transaction he exposed him as a cheat, he ruined him several times, and yet, as he could not get on without him, he had again and again to ask for his financial assistance, and in spite of all his experiences the financier again and again gave it. The unscrupulous statesman and the unscrupulous man of affairs were linked together with golden chains at which each tugged in vain.

The strangest plan conceived and negotiated by Ouvrard for Napoleon (meanwhile become Emperor), was the transfer of the Hispano-Mexican silver treasure from South America to Europe—a transaction as gigantic as it was fantastic. In the Peninsular War Spain had been forced to take sides against England, and was to pay Paris an annual subsidy of seventy-two million francs. Even if she had seriously intended to pay, Spain would never have been able to raise such a sum. When diplomatic reminders were without success, Ouvrard was in 1805 entrusted with the task of trying to get in the money. He saw at once that it was hopeless to attempt to extract the amount from the Spanish budget; but the country owned gold and silver mines in Mexico and Peru, and enormous stocks of silver lay in the store-rooms of Mexico. So this ingenious man conceived the idea of making those treasures available, and, in spite of the war and the risk of capture, of bringing them to

Europe—not in cash, but in the shape of produce bought in North America, the proceeds of the sale of which were to be applied for the benefit of Spain and used to pay the subsidies. The banker succeeded in engineering his grandiose scheme most ably, and in order to interest Charles IV personally in the transaction, the Spanish King was made a sleeping partner in Ouvrard & Co. Prudent and cautious business men like Henry Hope and P. C. Labouchere frankly thought Ouvrard insane when he suggested the transaction to them; they had neither the time nor the money for chimeras, and were at first unwilling to let an old business associate, when he showed an inclination "to capitalise his optimism at the expense of his veracity," have his say. But when he explained everything to them in the utmost detail, borne out with entirely unobjectionable figures, they listened most attentively and finally joined in and induced their associates in London, the Barings, to come in too. Brilliantly represented in South America by David Parish, they made eight hundred and sixty thousand pounds out of the deal, while Ouvrard—lost the whole of his fortune. Once again Napoleon had picked a quarrel with him, cancelled the Spanish agreement entered into with him after it had run for two years, and out of hand confiscated all his property.

For the moment Ouvrard's part was played out and Napoleon, now at the zenith of his power, believed that he would never again require the financier. But in this he was mistaken. When the Emperor returned from Elba, he had forgotten his former hostility towards Ouvrard, for he wanted money; fifty-four million francs were procured by the twentieth day, against bonds, the possession of which smoothed Ouvrard's way when two years later he undertook the raising of the great French loan.

With the same equanimity with which he financed the Hundred Days and subsequently the Restoration, he was banker (and perhaps even more) to Josephine Beauharnais; as Madame Bonaparte she was occasionally not unwilling

to accept his aid, for which she showed her gratitude, when she became Empress, by informing her old friend of her husband's threats against his liberty. As he had received timely warning, Ouvrard was able before his arrest to take a smart revenge: intentionally he left on his desk a note from which Bonaparte learnt in the unmistakable writing of his wife that even after her marriage she had repeatedly received money from him. Napoleon's vanity was the more deeply hurt because he knew that his own spies had read the perfumed document before he saw it. Josephine, who can be reproached with nothing but having been *trop femme*, was just as little enamoured of her husband as was her friend, Madame Tallien (the former Thérèse Cabarrus) of hers; both had the same elastic views of conjugal fidelity, and the only gifted child of Ouvrard, his son, Doctor Cabarrus, had to be known by his mother's maiden name.

Ouvrard's vast wealth faded away so often, bad luck clung to him so closely, and eventually assumed such dimensions that many were scared of joining in any transaction in which he was interested, and a contract with the Government in 1823 involved him in fresh ruin. In a lawsuit without end he claimed sums amounting to sixteen million from the State, but the latter raised a counterclaim. After two years' detention on remand on the charge of fraud and bribery he was discharged, but only to exchange his confinement for imprisonment for debt. Old-standing claims had been brought forward successfully, and as the ruined man could not pay, he stayed in Ste. Pelagie, the Paris Fleet, till 1830, immediately afterwards again becoming a millionaire—this time in a struggle against the Rothschilds.

Since the days of the French indemnity loan he had continually found these latter in his way. Amongst the many enemies whom the five Rothschild brothers made in the days of their unprecedented rise, the financiers of standing, with name and tradition behind them, were the least dangerous; they gave in without a fight and resignedly made place for the newer blood. Ouvrard, on the other

hand, was a fighter, made of the same tough fibre as the Rothschilds. Just as Napoleon persecuted Ouvrard, so the latter made the house of Rothschild, especially James in Paris, the object of his insatiable hatred, and it was a great stroke of luck for the bankers that this able and gifted enemy was so inconsistent, so unreliable, and so very speculatively inclined, for he was perhaps the only one who might have constituted a serious danger. But twenty-two years older than James, he was too worn out by his many ups and downs to be able to wage a successful war against them; at the same time, whenever opportunity offered (in the negotiations for the French, Spanish and Italian loans), he took up the cudgels and made difficulties for them, and the most singular thing about it is that he even made money out of his opposition. Others who crossed the path of the mighty ones did not come off so well. It must be admitted, however, that Ouvrard was occasionally better informed than the Rothschilds; he, in some way or other, got wind of the Polignac Ordinances in 1830; James de Rothschild, intentionally misled by the Minister, was completely unprepared for the débâcle and lost many millions on his *Rentes*, but Ouvrard, at the head of an important Bear Syndicate, became wealthy once more and for the last time.

Thereafter he sank into oblivion, and died in London in 1846, at the age of seventy-six, if not exactly poor, yet leaving an estate which stood in no proportion to his enterprises. The enormously active life of Ouvrard, the most prolific in ideas of the early nineteenth century financiers, ended with a quite inconsiderable personal triumph.

Both he and David Parish, his companion in so many battles with and for the golden bullets, met with passing success, but no lasting results were granted them.

DAVID PARISH AND HIS FATHER JOHN

JOHN PARISH IN HAMBURG—DAVID PARISH IN VIENNA—AUSTRIAN BANKERS—SOLOMON DE ROTHSCHILD AND PARISH.

GEORGE PARISH, the last member of the Parish family sprung from British soil, settled in Hamburg in 1756 and attached himself to the English Court, the last remnant of the once highly-respected guild of seafaring merchants, the Fellowship of the Merchant Adventurers of England.

John, his son, made himself independent. Without any doubt a man of very great standing, with ideas far in advance of his times, he met with complete success, and from 1793 was held in high esteem by the trading community throughout the world. The extent of his dealings was truly enormous; at the turn of the century John Parish & Co. were by far the greatest business house in Germany, and shared with Hope & Co., in Amsterdam, the whole financing of the trade with America. For England, Parish & Co. undertook the transmission of the subsidies to the Allies, and in 1795 transported British troops to the West Indies. So vast grew the resources of the firm that their co-operation was sought in all important international financial transactions, and their participation in the Consortium formed under the management of Hope & Co. (which included in addition Boyd, Ker & Co. and Harman Hoare & Co., both in London), for speculation on the fall of French paper money (the *assignats*), brought enormous profits. Undeterred by day-to-day fluctuations, they went on selling large amounts, till finally only one louis d'or was required for the purchase of eighteen hundred paper francs.

John Parish knew exactly what he was and represented; above all he recognized "that for the merchant credit means everything," and that "in order to climb to the highest points of life, one must never shrink from making sacrifices." To these sound principles he added that "the man who is afraid of the cost of such polish will never achieve the greatest brilliance." What he meant by this significant remark was that a house which has a proper respect for itself must always be ready to discount its own bills and at a lower rate than for taking in other people's acceptances. "For this purpose," he relates, "I always kept a large sum in hand in my banking account. The bill-brokers accordingly recommended their business connections abroad to buy bills on Parish & Co. just as keenly as the Amsterdam discounters were accustomed to do with those of Hope & Co. By this means our house came to enjoy great credit in London, and acceptances drawn on Parish & Co. were regularly discounted at a rate one half per cent better than those on other houses." It was in 1792—nearly a hundred and fifty years ago—that these words were penned.

John Parish also expressed very interesting and apt views on Lord Chancellor Thurlow's theory that no one should accept a bill unless he had its value in hand. Parish admitted —and we to-day should still agree with him—that this theory was to some extent justified, but at the same time pointed out both the absolute necessity for credit in mercantile affairs, and the wonderful helps to commerce of bills—facilities which Thurlow's theory entirely ignored.

Parish's description of business proceedings were sometimes highly amusing. When, in 1795, at the close of the most successful year he had yet had, he drew up his balance sheet and was able to show a profit of 1,365,317 Mark Banco,[1] "my beloved Madame Delcredere was standing in a corner; she held out her purse to me and asked me, 'Will this suffice to help you out of the wood?'—'How

[1] Mark Banco, only in use in Hamburg bank accounts, was not a coinage. (Mark Banco = 1·364 mark.)

much is in it?' I asked.—'My savings, my dear sir, since I have been in your service, namely

Mark Banco 331,687.'

I replied, 'Marvellous! but it really is not enough; you must get a little rounder,' so at Christmas I gave her a further ,, ,, 168,313, and in great delight Madame Delcredere went off with ,, ,, 500,000."

John Parish retired from affairs in 1807, went back to the old country and settled down in Bath. There he published a book called *Treatise of Domestic Economy*, in which he worked out peculiar theories on how to save money; but in practice he spent enormous sums—an expensive habit which afflicted all the members of the family. Things were done on a grand scale at the Bath establishment; in the course of sixteen years Parish gave 579 dinners for 4,891 persons and 76 routs, attended by 5,090 guests. With great complacence the old gentleman recorded that his house "displayed more beauty and more delightful and alluring faces than any other in Bath." When he drove out, his carriage was drawn by four greys, and preceded by two outriders. Eventually, however, the house in Bath became so expensive—ten servants and a rent of four hundred a year—that his German sons gently remonstrated with him. With a magniloquent "For a genuine Englishman nothing that is good can be too expensive," he turned a deaf ear to all exhortations, but all the same he drew in his horns a little, and in 1824 entertained only 930 guests and did not spend more than "13s. per head, inclusive of wine." John Parish lived to enjoy his adventurous and pleasurable life up to his eighty-fourth year, and died in Bath in 1829.

The trends of thought and all the details of the private life of this highly original type are so well known to us from a diary in which he wrote down his meditations—with no idea of possible future publication (nor has the

whole of it, in fact, been published yet). His memoirs—indiscreet, and therefore genuine—he wrote solely "for his own retrospective amusement, and for the instruction of his sons, of whom he had five: John and Richard, who were taken into partnership in 1797, George, Charles and David. David's bad conduct and tendency to extravagance caused his father serious anxiety, and lost him his chance of being admitted into the family firm. So he went his own way, which led to the topmost peaks of success; yet although his fall was headlong, he was by far the most brilliant and most gifted member of the family.

David Parish—eagle-eyed and intelligent, versatile, elegant, and good-looking to boot (an asset which must not be underestimated in any profession, even banking) was an interesting mixture of business-man and *viveur*, a type which really prospers only in Paris. His father's boldness, however, had in his case degenerated into foolhardiness.

The firm which he started in Antwerp in 1803 under his own name did not last long; when, in 1805, Hope and Baring had been induced to collaborate in the transfer of the Hispano-Mexican silver treasure to Europe, these enterprising yet cautious bankers looked round for a person of trust who would properly carry through the complicated transactions, and at the same time keep an eye on the all-too-ingenious Ouvrard. It would have been impossible for them to find a better man than David Parish, who was at home in all the capitals of the world, and had brilliant business connections and personal friends everywhere. The task was attractive; he closed his bank, journeyed to America, and while over there earned large sums for himself and his principals. He stayed on in America on his own account after Napoleon had cancelled his agreement with Ouvrard, negotiated loans for the States, bought extensive properties, and did not return to Europe till 1816.

Talleyrand, in Paris, and Gentz, in Vienna, became his intimate friends. "David Parish," wrote the gifted Austrian, "is the matador, the pearl of the business world in all

Christendom on both sides of the Atlantic, one of the most complete men that I have ever seen." Such a testimonial, at a time when the threads of politics and finance were so intermingled that it was impossible to disentangle them, from the Chief of the State Chancellery, Metternich's right hand man, who knew all the men worth knowing, meant business, and during the next ten years Parish took part in—sometimes conducted—all the great operations which were to bring about the financial reconstruction of Europe.

The first loan received by Austria after the Napoleonic wars was negotiated by him. Conditions in that country were almost desperate; it was impossible to raise even a paltry loan in Amsterdam or Paris—although the Hapsburg Silver Treasure had been offered as security. Geymueller & Co.,[1] of Vienna, together with their associates, Bethmann Brothers, of Frankfort, and John Parish & Co., of Hamburg, on whose behalf the younger John[2] conducted the negotiations, were willing, on principle, to make a new loan, but only if stronger hands came in too. It was David Parish who succeeded in inducing Baring and Hope to join the Consortium, and a particularly good stroke of business was done ultimately by Gentz, into whose ever open hand found its way the sum of a hundred thousand florins.

About the year 1820 Rothschilds decided to settle down in Vienna—Austria seemed to offer possibilities. It was not easy for them to find their way about the unknown territory, especially as it was only by side-paths that it was possible to arrive at a remunerative goal. Parish had often trodden them, and was accordingly well qualified to complement the newcomer with the vast resources, but to introduce him to Gentz instead of seeing that he himself remained the indispensable connecting link was a tremendous mistake

[1] In 1840, when matters were once again desperate in Austria, Geymueller & Co. had to stop payment. Metternich would have liked to see the formerly high-class house weather the storm, but neither Rothschilds nor the other Government bankers were willing to help.

[2] John Parish, the son, frequently helped the Austrian State Chest out of temporary difficulties out of his own pocket, and in 1817 was rewarded for these services by the title of Baron von Senftenberg.

and disastrous shortsightedness on the part of a man generally so clearheaded. The first result of the new acquaintanceship was the great Austrian Lottery Loan brought out by Rothschilds.

Before their arrival in Vienna Arnstein & Eskeles,[1] Geymueller & Co., Steiner & Co. and Fries & Co. were the Government bankers, and held a kind of monopoly of all finance and loan transactions. Fries & Co. were especially influential, they had been firmly fixed in the saddle since the middle of the eighteenth century; and since for the carrying out of his vast projects he needed a jumping off point and an organisation, David Parish became a partner in this bank. Once Solomon de Rothschild had secured his footing everywhere and no longer required the helping hand held out to him, he jockeyed Fries & Co. out of their brilliant position and Parish himself out of his relations with Metternich and Gentz, and David was excluded from all the subsequent important transactions between Rothschilds and the Austrian State. After the Lottery Loan no further participation was offered him.

David Parish managed his firm very ably, but, handicapped by great faults, he was bound to land in disaster: the transactions into which he entered were frequently beyond his power to carry through, and he lacked the ability to bring the plans he initiated to fruition.

When matters came to a head in 1826, he fought to the last ditch for his name and position; but when he was no longer able to discharge his acceptances and his creditors became pressing, he collapsed and committed folly after folly. Despair must have unhinged his mind. He asked Metternich to repay a loan made to him, when at the time of the transaction it had been most doubtful whether it

[1] Even this important house was unable to ride the storms; it collapsed in 1859 when, during the war with Italy, the Austrian currency stood so low that 100 silver florins cost 147 paper florins (and during the disturbances in Italy and Hungary in 1861 as much as 152.75 florins). The Government was unable to prevent the downfall of the old-established concern with which it stood in such close relations, but by means of a rapidly effected composition it at least did all it could to mitigate the results.

had in fact been a loan—or something else. In order to put an end to a scene which could only be painful to both parties, the Chancellor paid what he happened to have by him. Gentz was made of sterner stuff, not inclined "to mix money matters with sentiment" and did not lift a finger to help his former friend.

The only chance left to Parish was—to go to the man whom he blamed for the whole of his misfortune. Now Solomon de Rothschild was a smart business man, but a decent fellow, and he was never in the habit of sending a desperate man away uncomforted. What happened at this —their last—interview we do not know, but we may assume that Parish was unable to strike the right note, that he was too proud to express himself clearly when talking to the man whom in former days he had patronized and at the same time despised—that he indulged in phrases instead of asking for help. But whatever took place—Solomon did nothing.

In three dignified, straightforward and logical letters David Parish for the last time described his position. One letter was addressed to Metternich; one to Rothschild reminding him that in 1817 it was he who had introduced him into the French and Austrian affairs "against the wish of my oldest and most intimate friend" (meaning Hope, of Amsterdam) and how he had at the time been warned "that you would leave no stone unturned to force me out of them." To Geymueller he confessed that "it is as impossible for me to save my house as to survive its shame." Then he threw himself into the Danube.

Every business man is glad to be rid of a troublesome competitor—but this was not what Solomon de Rothschild would have desired. He was inconsolable, and in long conversations with Metternich and Gentz he tried to find out whether after all it might not have been possible to act differently.

The share in the Austrian Loan Consortium which became free through the collapse of Fries & Co. was transferred to Messrs. S. M. von Rothschild.

THE RISE OF THE BARINGS

THE Parishes, of Hamburg, and the Hopes, of Amsterdam, were Englishmen, the Barings, of London, of German origin, and, like all the other early bankers, they, too, had originally started in quite a different profession.

Francis Baring, pastor of the Lutheran Church at Bremen, was some way on in years when in 1717 he emigrated to England, which in matters of faith also held liberal ideas. His son John started as a wool manufacturer at Larkbear, near Exeter, and his descendants became great men in the City and the Colonies, in the State and society. In the main less handicapped than the Rothschilds, who came roughly eighty years later, and with the additional advantage that their name sounded less Continental, the Barings found their rise appreciably easier. For not until 1836—thirty-eight years after his arrival in England, when Nathan Meyer acquired Gunnersbury (he himself did not live to see the settlement of his family in the former royal estate) did the Rothschilds begin to take a prominent place beyond the confines of New Court; John Baring, on the other hand, naturalized in 1723, had a bare six years later, thanks largely to his ownership of Larkbear, to which ere long he added the more important Ashburton, become a County gentleman and a power in Exeter. He died in 1743; the family property descended to the elder son, John; the younger, Francis, had to carve out his own fortunes, and was sent to London, where he settled down as a merchant.

The City man soon outpaced the Squire in wealth and when bad harvests robbed agricultural enterprise of most of its attractions, the head of the family was only too ready

to join hands with his younger brother. Accordingly, in 1770, the firm of Baring Brothers came into being, but not as a bank in the strict English sense of the term—in which it is confined to receiving money on short term from its customers and lending it on short dated commercial paper. The Barings (and subsequently the Rothschilds) were (and are both to this day) merchant-bankers,[1] who accept and lend money at long dates.

Francis Baring's influence extended far beyond the management of his firm; in 1779 he joined the Board of the East India Company, and in 1792 and 1793 he was at the head of its affairs as Governor. His wise counsel was listened to readily and always followed, and when, in 1784, he entered Parliament—the first of many Barings to sit in Commons or Lords—as Liberal member for Grampound, Pitt very soon spoke of him as one of the men who "represented something more than their constituencies," and said that he belonged to those who form "the backbone and salvation of the country." Public recognition, accordingly, was not lacking; "to gain the goodwill of the influential banker" Francis was given a Baronetcy in 1793. In spite of his wealth, this man whom Erskine called "the first merchant of Europe" had simple tastes and was prudence itself; he carried on business for twenty years before he felt entitled to keep an equipage. At his death, in 1810, "first in knowledge and talent, character and opulence," he left a fortune of two million sterling.

His eldest son, Thomas, had other ambitions; he collected pictures, and as a Baronet refused to go on banking. Henry, another son, was a too keen though lucky gambler, and out of the running for the succession, and so the father's mantle descended on the second son, Alexander.

Alexander obtained his commercial schooling in the great house of Boehm, and learnt banking from his Amsterdam connections, Hope & Co., in whose hands was centred the greater part of the financial business with the youthful

[1] See chapter, The Merchant Bankers.

United States. With his clear insight into facts and potentialities, he recognised that beyond the Atlantic there was growing into being a land of "unlimited possibilities"[1] and determined to make a personal acquaintance with American commerce, crossed the Atlantic while yet in his early twenties.

We may be assured that the wise father gave his son a number of good counsels before what was in those days a very far journey, and he may also have reminded him of the words of Polonius. Two things, however, he again and again impressed upon him "above all": to buy no waste land—"uncultivated lands can be more readily bought than sold again"—and not to bring home an American wife—"a wife is best united to the home in which she has been brought up, and cannot be trained a second time." In other things Alexander may have been a devoted and obedient son, but when he returned from his extensive travels he was the proprietor of vast territories in completely uninhabited districts of Maine and Pennsylvania, whose value increased enormously with the growth of population; and in 1798 he had married Anne Bingham, the daughter of Senator William Bingham, of Philadelphia, the richest man of his time in the States. This union brought him personally nine hundred thousand dollars, and to his firm the bulk of the American business. Not always does the good advice of the father form the corner stone of the son's house.

Under Alexander—"Alexander the Great"—the position of Baring Brothers in the City and banking world became outstanding in the manipulation of foreign loans, and was subsequently overshadowed only by Rothschilds. A transaction unique of its kind, as gigantic as it was unprecedented, was the indemnity loan granted to France through the negotiations of Ouvrard with the co-operation of Hope & Co.; thanks to the financing of the vanquished State the European situation was saved, and the enthusiasm

[1] It was a banker who coined this phrase. In 1903 Ludwig Max Goldberger, q.v., a Berlin financier, published the impressions which he had collected in the course of a study tour across the United States in 1902 in a book which appeared under the title of *The Country of Unlimited Possibilities*.

of Richelieu, the French Prime Minister, was aptly expressed in the phrase that there were six Great Powers—England, France, Russia, Austria, Prussia and Baring Brothers.

Men like Alexander Baring were, in fact, a speciality of the City of London, and Lombard Street in particular produced a type differing from that found in any other financial centre in the world. These bankers were the builders of the great edifice of England's credit; they were colonially-minded, thought imperially, and could achieve whatever could be grasped by sound commonsense. With interests which extended over the whole world, Baring felt the natural urge to take his share in the management and especially in the commercial legislation of his country, and in 1806 he entered Parliament as member for Taunton.[1] He was a staunch Whig, with an ever open hand for the Party Chest and assisted in the rehabilitation of Pitt's banking account. "But how will Pitt take it?" was asked by an over-anxious participant in the preliminary negotiations. "Why, quarterly, of course," was Sheridan's soothing retort. Brougham also was helped financially by Alexander Baring in his struggle on behalf of Caroline, Princess of Wales and Queen of George IV, the Whig protégée.

When, however, at the time of the discussions on Parliamentary Reform, England grew restless, and even indulged in riots—"our little riots just to show that we are free men," as Byron ironically but aptly termed them, the banker felt compelled to alter his views; "it is impossible for rich capitalists," he stated, "to remain in a country exposed to tumultuary meetings . . . there is no persecution so fatal as a mob persecution. . . . Despotism itself is to be preferred to mob persecution." He accordingly crossed the floor of the House, and from 1829 was a Tory. In the short Peel Administration (1834–5) he was President of the

[1] From 1830 this constituency was represented by Henry Labouchere (subsequently first Lord Taunton), a son of P. C. Labouchere, of Hope & Co.; like his father, he was married to a Baring (a daughter of Sir Thomas Baring, and after her death he took as his second wife a daughter of the Earl of Carlisle, thus allying himself with most of the great Whig families). His nephew was the other Henry Labouchere —"Labby."

Board of Trade, and immediately afterwards—the first of the Barings to do so[1]—entered the House of Lords as Lord Ashburton. "A good name," said Disraeli, "but Mr. Baring has had no success in the Upper House."

By 1825 he had withdrawn from the active management of his bank; from the windows of Bath House,[2] which he built in 1821 at 82 Piccadilly, on the site of old Bath House, the residence of the Pulteneys, he was a mere spectator of affairs. Their conduct was in good hands.

After the crisis of 1836, brought about by an excessive credit granting and considerable over-speculation, especially in foreign loans, the Barings showed their strength and capabilities. The Bank of England, none too well managed, found itself in 1839 face to face with perhaps the gravest situation in its history.[3] Every means that were tried to arrest the downward curve of the reserve proved inadequate—but the Barings—the credit of the Barings—saved the bank. They came to an agreement with several banker friends in Paris to accept bills of exchange to the amount of two million pounds, which were discounted by the Banque de France. The proceeds flowed into the coffers of the Bank of England, and the decline was arrested. In 1847 it became necessary to hold out a helping hand to the Banque de France itself; the crisis in Paris was so intense that in order to ease the situation the central bank sold twenty million francs' worth of Government securities to Barings', who sent over gold in exchange.[4]

Only once more did Lord Ashburton take a prominent

[1] The Baring family is represented in the House of Lords by four branches: Ashburton (1835), Northbrook (1866), Revelstoke (1885) and Cromer (1901).

[2] Under his daughter-in-law (Lady Harriet Montagu, daughter of the sixth Earl of Sandwich), the friend of Carlyle, Bath House became a literary centre which did not altogether escape criticism. The mansion seems to have had a special attraction for financiers; at the end of the century it was the residence of Baron de Hirsch, then it passed into the ownership of Sir Julius Wernher, Bart., the Randlord, whose widow, Lady Ludlow, occupies it at the present time.

[3] See page 73.

[4] It is interesting to note that on this occasion the Czar was among those who came to the rescue of the Banque de France. Through his Ambassador in Paris (Count Kisselef) he offered to accept French public securities to the amount of fifty million francs in payment of grain; as otherwise it would have been necessary to export gold, this constituted a great relief.

part in public affairs, when his name was attached for ever to a great International Treaty.

Perpetually since 1797 Canada and the United States had been unable to agree on the subject of a territory which could not be called exactly small,[1] and in 1841 war looked imminent. Peel made one last attempt at settlement: Ashburton, who was connected with America by business and family ties, was sent out in 1842 to solve a problem at which diplomats had laboured in vain for nearly half a century. "Lord Ashburton," said one who took part in the negotiation, "was not a trained Ambassador, but his knowledge of business, straightforwardness and good sense, were qualities far more valuable than those generally to be found in professional diplomatists. . . ." At any rate, he succeeded, after short negotiations, in arriving at a reasonable compromise, and a Treaty was concluded which is known to history as the Ashburton Treaty.

Alexander died in 1848; William Bingham Baring, his eldest son and heir to the title, had no connection with the bank, and Francis, the second son (subsequently third Lord Ashburton)[2] also soon retired and settled in Paris. Then Thomas and John Baring, the sons of Sir Thomas (Alexander's elder brother), succeeded as heads of the firm, together with Joshua Bates.

Bates, an American, had, after various business troubles in his own country, entered into partnership with John Baring in 1823; each of them had put twenty thousand dollars into the new venture—a commission house in Boston, which within a short time became such a success that a bare two years later the business was amalgamated with Barings', and the efficient proprietors were invited to join the management. Bates made a considerable fortune both in America and London; this enabled him to give free rein to his hobby of collecting books and founding public

[1] It was a question of 6,750,000,000 acres.

[2] Francis Baring, third Lord Ashburton, married a daughter of Hugues-Bernard Maret, Duke of Bassano, Secretary of State to Napoleon I. He had bought vast territories in Mexico, but under the pressure of his cautious partners had to sell the land—on which the City of Mexico stands to-day!

libraries. He died in 1864, leaving the whole of his great wealth to his only surviving daughter, Elizabeth, the wife of Sylvain van de Weyer,[1] one of the founders of the Belgian Monarchy and Minister at the Court of St. James.

Like his uncle, Alexander, Thomas Baring learnt banking from his family's old business connections on the Continent, the Hopes, where the management of affairs had passed into the hands of Pierre-César Labouchere. There is no doubt that the latter was an eminently able and efficient man, who knew how to maintain the traditional position of his firm and to increase its importance by more modern methods—the transaction with Ouvrard for instance. Family pride induced his grandson, "Labby," to exaggerate when he said that "my grandfather was a partner in Hope's, at Amsterdam. When Napoleon laid hold of Holland, Hope's transferred itself temporarily to London. He (César L.) married a sister of the Baring of the day and became a partner in Barings'" which was not the case.[2] That Dorothy Baring became his wife is correct, but things were not so simple as all that, indeed cannot have been, or one of the most delightful anecdotes of this date in the

[1] Miss Eleanor Van de Weyer, their daughter, married in 1879 the second Viscount Esher (Reginald ["Reggy"] Brett, q.v.)

[2] This and other misstatements relating to César Labouchere and Hope & Co. have passed into most histories of banks; the present author, however, has incontestably ascertained the following in Holland: Hope & Co., whose active partners from 1789 to 1801 were Henry and John Williams Hope (see below), never transferred their office to England, although John Williams went to England in 1794 and returned to Holland in 1802; during this time Labouchere was entrusted with special powers. He became a partner, *but only in Hope*, after the resignation of the Messrs. Hope in 1813; he left the firm in 1823 and died in 1839.

Hope & Co.

Henry Hope was born in 1736 in Boston, then in New England; from 1754 to 1760 he was with Gurnell, Hoare & Co., in London, but then moved to Amsterdam, where he acquired an enormous fortune. He took into partnership his nephew by marriage, John Williams Hope, born in a Cornwall Rectory, whose real name was John Williams, and who did not add the name of Hope to his own until after his marriage.

William Williams Hope, the son of John Williams Hope, acquired a certain notoriety, at least during his lifetime, through the curious life which he led in Paris. He employed no males in his household, and his personal entourage consisted of eighteen ladies selected with as much attention to variety of charms as possible who, in addition to their other attractive qualities, had to be musical and so well educated that they were able to confine their conversation, at table, to poetry, literature and art. As reward for their self-sacrificing and often lengthy services, the ladies were endowed with considerable legacies.

In England "the great Mr. Hope" was the owner of Rushton Hall, near Kettering, and another of his possessions was the famous Hope Diamond.

history of the commercial world—one often recounted, but with other names and places, as the necessity seemed to demand, would lose its point. Labouchere, then, had by diligence and foresight risen to a good position at Hope's, and, like every other ambitious young man, he grew increasingly to feel that with his abilities he ought to be a partner. Unfortunately his chiefs did not seem very oncoming; so one day the young man, who did not bear the name of César for nothing, took matters into his own hands, appeared in the private office of the partners and suggested that he should be admitted into the firm; he was met, however, with a blank refusal, accompanied by some far from complimentary remarks about his impudence and presumption. "I am afraid I don't understand your excitement, gentlemen," was Labouchere's courteous reply, "and perhaps before arriving at a final decision you will take into consideration that I am on the point of becoming engaged to the daughter of Sir Francis Baring." "But, my dear boy, you ought to have said so at once," old Hope hastened to answer, "for then such a slight misunderstanding could not possibly have arisen. We shall be only too delighted to admit so efficient a young man into partnership." The next scene was enacted at Baring's, where our young man had to listen to some even more unpleasant home-truths: he was abusing their hospitality; it was really going too far for a mere employee to aspire to the hand of the daughter of the house; in order to avoid further misapprehensions it might be better if for the future he would confine his calls to the business part of the premises. "You would be quite right," remarked Labouchere without turning a hair, "and I know the eminence of your bank far too well to have dared to make such a suggestion if I were not able to offer my future wife a suitable position. But you probably do not know, Sir, that I am on the point of becoming a partner in Hope's."

And so Pierre-César Labouchere 1796 became the husband of Dorothy Baring, the brother-in-law of the future Lord

Ashburton and seventeen years later a partner in Hope & Co.—nor could things possibly have happened otherwise, and there is no need for further research for the origin of his grandson, Henry Labouchere's "cheek, good sense and foresight."

Like his predecessors, Thomas Baring, head of the bank from 1825, was one of the leading authorities in the City, a Director of the Bank of England, and for forty years Chairman of Lloyd's. At the start of his political career he was not very lucky in various constituencies, but from 1844 to his death in 1873 he represented Huntingdon without interruption. Contrary to the family tradition which, however, had already been broken by Alexander, he stood on the side of the Tories and was a staunch supporter of Disraeli, who described him as "a man who at the same time understands a question and can handle it before a popular assembly in a popular style, who teaches without being pedantic . . . possesses a talent for the exercise of which he is responsible to his Sovereign and his country." In 1852 and again in 1858 Lord Derby offered him the post of Chancellor-of-the Exchequer—an office which his Whig brother, Sir Francis Thornhill Baring (first Lord Northbrook), had held from 1839 to 1841 in Lord Melbourne's administration. Thomas refused: a bachelor, he had little personal ambition, liked as far as possible to remain in the background, busied himself with studies and picture collecting, and looked after the National Gallery, of which he was a Trustee.

Under the capable management of Thomas and his partners Baring Brothers enjoyed a second period of glory. The States Mediterranean, occasionally Russia, and in particular South America, represented their chief spheres of activity.

Ever cautious and reserved, like the Rothschilds, they refrained from speculation in foreign loans, nor did they take any part in the piratical expeditions into South America. Not one of the many loans issued by them proved a

disappointment to its subscribers, and of their numerous transactions only one actually resulted in failure—the Argentine loan of 1824[1] which became insolvent in 1830.

Further developments place this mishap in the light of the writing on the wall.

[1] £1,000,000 6 p.c. at 85, raised by the Province of Buenos Ayres, defaulted in 1830 and was recognised as a National Loan only fifty years later, in 1880.

INTOXICATION

PROMOTERS OF FOREIGN LOANS

THE only country which never borrowed, ever was lending, was England; as far back as 1706 indeed the first foreign loan was dealt in on the London Stock Exchange. This loan was floated after the victories of Blenheim and Ramillies, at the suggestion of the Duke of Marlborough, to an amount of half a million sterling, at the rate of interest of eight per cent, and with Joseph I, Emperor of Germany, as borrower.

After Waterloo, Europe, well-nigh bankrupt, turned to the City of London. France was followed by Prussia, on whose behalf Christian Rother[1] plied the knocker at New Court, and the first Prussian External Loan was effected in 1818 under Nathan Meyer Rothschild's management.

Then came Russia, Austria, Portugal and Spain—and ultimately France was the only one of these countries to meet her obligations. In theory "foreign investments consist of that part of the property of a country and its inhabitants situated abroad, from which its owners expect to derive an income," but like so many other theories, this one did not stand the test of practice. As early as 1823 Spain omitted to pay her interest, and started the long sequence of defaults; most of the remaining countries carried on for about a century, and then joined the ranks of the repudiators. A history of foreign loans would consist of little more than the record of their failures.

[1] Christian Rother, the reorganiser of Prussian finances, appointed Finance Minister in 1836, was and remains the only lower grade official in the pre-revolution Prussia who rose to Ministerial rank. Rother, however, understood his business.

In England itself the position was, after a rapidly surmounted relapse, as favourable as could be desired. Agriculture, it is true, complained of low prices, but then it always does, so that its moans are apt to be overlooked. Industry made very vast progress, production increased, and 1824 showed a considerable excess of exports over imports. Money was plentiful and cheap, the only complaint being that there was no way of making sufficient interest on it—a lamentation that grew still louder when in 1824 the National Debt was converted, and instead of their former four Consols only yielded three and a half per cent.

But such weepings and wailings never endure, and the investor on the look out for securities with a higher rate had no great difficulty in 1825 in finding what he wanted. There is an axiom that loanable capital flows, as it were, of its own volition by interconnected pipes to the place where it is most wanted and where it can be used to the best advantage; frequently, however, this theory is very appreciably modified in practice. By blowing very hard into those connected pipes it is an easy matter to alter the conditions inside them, and just as easy to induce the loanable capital to flow to the spot where enterprising operators wish to have it, and where it can be used to the greatest advantage—for their own purposes as intermediaries. Professional promoters have a delicate scent, and in the course of 1825 so many schemes were put forward that funds for their financing began to run short; "the impudence of the inventors surpassed the credulity of the investors, and that means a great deal."

Joint-Stock Companies were formed for every conceivable purpose, and for steam-navigation, canals and railways[1] applications came in such numbers that in the session of 1825 no less than 439 petitions for private Bills were presented,

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[1] James Brindley in 1759 designed a canal from Worsley Coal Mine to Manchester; George Stephenson's first railroad—his engine with steam blast having been patented in 1815—was built for Hetton Colliery. So it will be seen that the first canal and the first railway were constructed solely with a view to carrying coal.

of which 206 were passed[1]; yet this rush was only a feeble precursor of what was to happen during the actual railway mania. Cemetery Companies offered to the public first their shares and then their services; one of these burial concerns promised "to combine the beauties of the celebrated Cimetière du Père Lachaise with perfect security for the dead," without, however, setting out clearly in its Prospectus what kind of security the living shareholders were to get for their money, although it was prognosticated with certainty that "the profits, considering the number of deaths, will almost exceed the powers of calculation." Another fair flower of those happy days of company mongering was a financial institute which called itself Equitable Loan Company, intended to pursue the very praiseworthy object of combating the usury of pawnbrokers, whilst at the same time in its Prospectus promising its shareholders dividends of 40 per cent!

A speculation mania confined to a limited circle of insiders can never be a danger to the whole community; but the bubble of 1825 brought in its train such wide-spread ruin because the gambling bacillus infected extensive sections of the population, the majority of whom hardly knew how the trade in securities was conducted, and matters grew worse as the scope of the stocks and shares dealt in went far beyond English ventures. Capital and speculation discovered a new and almost limitless field for fruitful exploitation—South America, which became "the cockpit of Europe's speculative finance."

Canning's recognition of the independence of the South American States after they had repudiated their allegiance to their former mother country, Spain—using the personal pronoun which his colleagues so much hated, he had declared, "I called the New World into existence to redress the balance of the old,"—drew the attention of the adventurous speculators to those parts; on this occasion trade did not follow the

[1] The first Railway Act went through Parliament as early as 1801, but referred to horse-drawn railways prior to the use of steam locomotives.

missionary, but the flag of foreign politics with the motto "Deliverance from an alien yoke!" and Lord John Russell's quotation in Parliament, "When a people from good reasons take up arms against an oppressor, it is but an act of justice and generosity to assist brave men in the defence of their liberties,"[1] did a certain amount of mischief, as the word "generosity" was, in practice, explained in a way completely opposed to the intention of the speaker. It is true that Byron wrote somewhat ironically:[2]

> "Every loan
> Is not a merely speculative hit,
> But sets a nation or upsets a Throne,"

but at the same time he was very pleased when, in those days of joyful giving, it became possible to float a loan for Greece. Highly competent financiers did not even wait for countries which had just won their independence to come forward with applications for loans; it was pointed out to their rulers how simple, what good policy, and above all how cheap it was for the Government of a State to borrow money—Ouvrard did not lack disciples.

And so loans were made to unimportant countries which, as security for capital and income, could offer no more than grandiose phrases and high-sounding promises which they were neither prepared nor able to keep. Guatemala from 1828 to 1855, Nicaragua from 1827 to 1874 and Greece from 1827 until as late as 1879 (and the list can be extended)[3] failed to meet so much as one of their coupons when due.[4]

[1] It was Emmerich Vattel, the Swiss champion of the rights of man, who coined this phrase.

[2] Don Juan, XII, 5, 6.

[3] The only reason why Venezuela and Ecuador do not figure in this financial obituary is that they were not yet born. When in 1821 the power of Spain was broken in that part of the world, Venezuela was united with Colombia and Ecuador. Venezuela became a sovereign and independent state in 1829, Ecuador in 1832.

[4] In the case of the three South American States (Guatemala, Honduras and Nicaragua) this refers to their share in the five per cent loan of £1,428,571 which was offered by Barclay, Herring, Richardson & Co in 1825 at 73, but of which only £163,000 was issued.

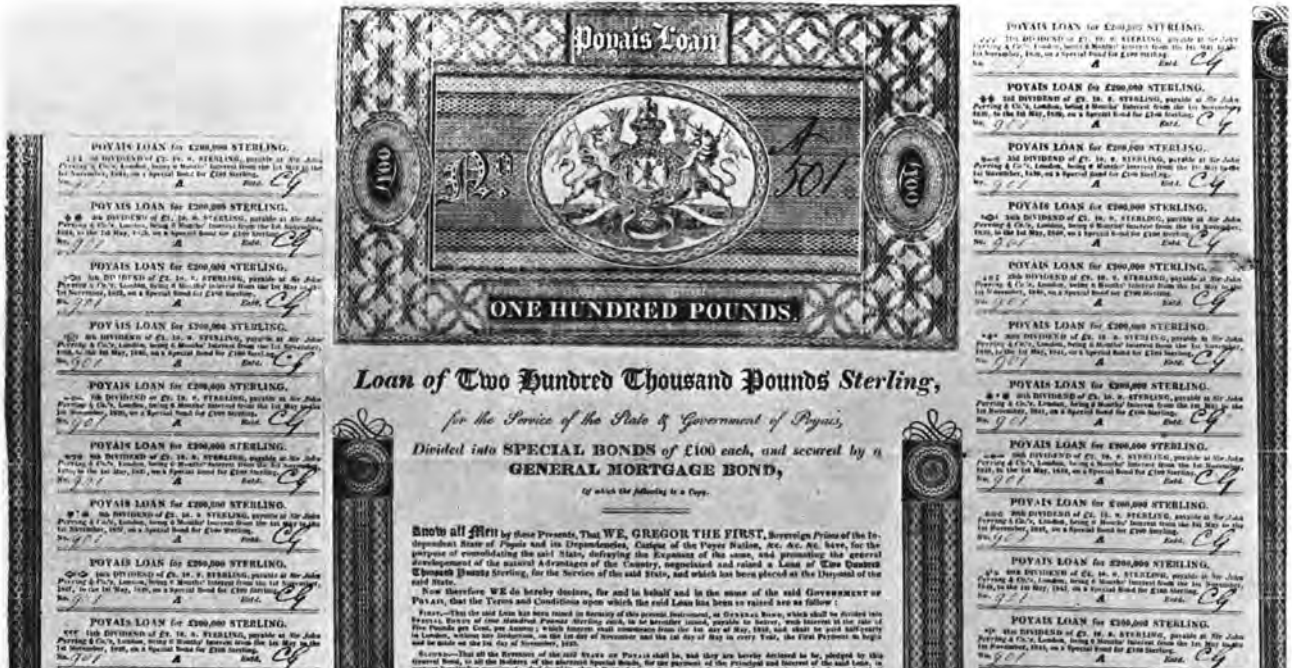
This firm of merchant-bankers, who were exceedingly active in the early twenties as issuers of foreign loans, is generally referred to, even in reference books, by a

POYAIS LOAN.

"There was one South American Loan which was truly remarkable in its nature. Bonds to the amount of £200,000 issued at 80, secured on the wealth of Poyais, circulated freely on the Stock Exchange. Poyais was a new name for the Muskito Country where Gregor MacGregor, an adventurer in the Spanish-American wars, but now Cacique of Poyais, had founded a settlement. It was described as an earthly paradise; land was sold and immigration was freely invited and organised. As his name suggests, Gregor MacGregor was a Scot, and the ships which sailed from Leith, conveyed emigrants mainly from Scotland, who had sold their little all to participate in the enterprise. They found Poyais the earthly paradise, to be a miserable, desolate malarial swamp. It was Dickens' Eden on a large scale. The immigrant party was decimated by disease and poverty, despite the possession of the notes of the Bank of Poyais, which they had received in exchange for those of the Bank of Scotland. Needless to say, no interest was ever paid on the Poyais bonds, although they again appeared on the Stock Exchange twelve years afterwards as gambling counters during the foreign loan mania of 1836. The incident naturally wrought a most disastrous effect in the minds of the poor upon the whole subject of emigration."

Extract from "The Stock Exchange in the year 1900." Preface by W. Eden Hooper, 2, Angel Court, London, December, 1899.

Sir Gregor MacGregor distinguished himself under Simon Bolivar in the struggle for the independence of the South American States. In 1821 he settled among the Indians of Poyais, a district on the north coast of Honduras on the Mosquito shore. "For the purpose of procuring religious and moral instructors, the implements of husbandry, and persons to guide and assist the cultivation of the soil" he, in 1821, started for Europe and returned home with a loan he had obtained. Of MacGregor's end nothing is known.


Poyais Loan
£100
No. 501
£100
ONE HUNDRED POUNDS.
Loan of Two Hundred Thousand Pounds Sterling,
for the Service of the State & Government of Poyais,
Divided into SPECIAL BONDS of £100 each, and secured by a
GENERAL MORTGAGE BOND,
Of which the following is a Copy.
Know all Men by these Presents, That WE, GREGOR THE FIRST, Sovereign Prince of the Independent State of Poyais and its Dependencies, Cazique of the Poyer Nation, &c. &c. &c. have, for the purpose of consolidating the said State, defraying the Expenses of the same, and promoting the general Aggrandisement of the manifold Advantages of the Country, negociated and raised a Loan of Two Hundred Thousand Pounds Sterling, for the Services of the said State, and which has been effected at the Deposital of the said State.
Now therefore WE do hereby declare, for and in behalf and in the name of the said GOVERNMENT OF POYAIS, that the Terms and Conditions upon which the said Loan has been so raised are as follow:

[*Photo: By Courtesy of the Institute of Bankers*

POYAIS LOAN

[*Face page* 40

A peculiarly typical example of the rashness with which loans were granted is the case of Colombia[1]; when the first payment of interest on the 10 per cent bonds issued in 1820, fell due in 1821, the State defaulted. In the following year an agreement was come to, and immediate attempts were made to repudiate it, in spite of which, in 1822 and 1824 the public was invited to subscribe for new loans to finance the War of Independence, and these in turn promptly defaulted in 1826. It has been calculated that upwards of thirty-two million were subscribed by the investing public for various loans, the whole of which was lost. Not even the debtor States themselves derived any real benefit from the money, which was squandered by profligate financial administrations or disappeared in other ways; and if they had seriously intended to pay the interest due, the burden would have crushed them.

It must not be imagined, however, that gambling was confined to Government Stocks; the staking of money in gold mining—a venture risky beyond all others—has at all times had a peculiar attraction for speculators, and now, in order to exploit South America, all and sundry who had money and could be induced to hazard it, were repeatedly informed by word of mouth and in writing that at last the new and genuine Dorado was discovered. Gold was to be extracted from the gorges of the Cordilleras, and as nothing is too foolish not to find believers, such quantities were said to be forthcoming that "fears began to be entertained of their becoming almost valueless"; the finds would be so enormous

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wrong name. Barclay, Richardson & Co. and Barclay, Herring & Co. were not separate concerns, but were *one* firm of the name of Barclay, Herring, Richardson & Co., of Winchester House, Broad Street. Amongst those interested in it was Thomas Richardson, the founder of Richardson, Overend & Co., subsequently styled Overend, Gurney & Co., which is dealt with more in detail in a later chapter; Richardson's temporary connection with Graham & Powles leads us to believe that that firm also in some way was a member of the Barclay-Herring combine, which failed in 1828 (see page 60).

It must, further, be expressly noted that these merchant-bankers had no connection whatever with Barclay, Bevan & Co., the bankers, subsequently Barclay's Bank.

[1] Colombia Loan of £2,000,000 at 6 per cent issued at 84 in 1822 by Herring, Graham & Powles; £4,750,000 loan at 6 per cent issued at 88½ in 1824 by B. A. Goldschmidt & Co. (failed in 1826, see page 60).

that it would be possible to redeem the whole of the National Debt, and in one prospectus particular attention was drawn to the fact that the enterprise in question was "no speculative undertaking—no problematic or visionary scheme." Other announcements said that pearls were to be dived for off the coast of Columbia, and that in Peru silver was so plentiful that all utensils of every-day use were made of it.

A wild boom in these South American Mining shares[1] set in, for the hope of enormous gains appealed to the imagination, and everybody was anxious to have a share in the treasures which were to be dug up. But short as the time was during which these Latin-American countries were introduced to the civilising influence of European finance, it could already be said there, too, that "a mine was a hole in the ground owned by a liar."

When the credulity of the public has reached such a height that they will buy shares which the most superficial scrutiny would show to be swindles—when the lust to grow rich quickly through speculation spreads to all circles—when the rate of interest rises and at the same time market quotations soar—then a crisis is due, and every attempt to stay the inevitable is in vain.[2]

Not only was fabulous wealth to be brought home from South America but companies formed for the purpose were also to export to those parts the stocks of the home industries; and these affairs were so cleverly and adroitly managed that warming-pans from Birmingham and skates from Sheffield

[1] The leadership in the South American gold boom was held by the shares of the Real del Monte Company, a not altogether worthless undertaking, for of the fifteen million which were expended on the mine, by the time it was abandoned in 1849, ten and a half million had been returned; only thirty per cent of the capital actually invested had, therefore, been lost. The loss sustained by the shareholders who had paid high premiums was out of all proportion greater, for the £400 shares, with only £70 paid up, rose to £1,350, nearly twenty times their nominal value. When the crash came, they fell to a considerable discount, that is to say the seller paid the purchaser to take the shares from him, so that he might get out of his liability to pay in full.—Another share in this group, the United Mexican £40 shares, £10 paid, rose to £155.

[2] After the crash, in 1827, it was calculated that ninety three million sterling, which should have brought in six million a year in interest and dividends, were invested in foreign Government loans, South American mining and other shares. Of this sum seventeen and a half million had stopped in the hands of promoters and contractors.

are said to have been offered for sale in Rio de Janeiro, and another concern had plans for drafting Scotch milkmaids to the Argentine, where the people were so backward that they cooked with oil instead of butter. A genuine undertaking was even planned—a Canal to be cut through the Isthmus of Panama.

Prudent and experienced men shook their heads, but "No warning can save a people determined to grow suddenly rich" was one of the many wise sayings of the great banker, Samuel Jones Loyd.

And so everything happened as it was bound to happen.

PHILHELLENISTS

In those happy days, when the investing public was so ready to put its money into each and every kind of loan, Mexico, one short year after its Declaration of Independence, made its first appearance in the Stock Exchange List, received in 1824 and in 1825 a total of nearly six and a half million sterling[1], and in 1827 promptly stopped payment. The financing of Portugal in 1823 saw the opening of another and very complicated chapter in the history of dishonoured loans, and there may be a modicum of truth in the story that Dom Pedro, the claimant to the Throne, received the wherewithal to pay for his expedition to the shores of the Tagus from under-employed stockbrokers, who hoped in this way to prepare the way for future loans.

Every one of these issues met with brilliant success; the financiers did, in fact, make huge intermediate profits, and investors subscribed in the expectation of receiving high rates of interest; but only an infinitesimal minority of them had any idea of whither their money was finding its way, or what was going to be done with it when it got there, and it is quite certain that they were united by no tie—spiritual or otherwise—with any one of the exotic countries which raised the loans. How much greater in proportion, then, was the demand likely to be for a loan for a country from which England—and indeed the whole world—derived so important a part of its civilisation! The name Hellas sounded well, and had the power of evoking

[1] Mexican Loan, £3,200,000 five per cent at 58 issued in 1824 by B. A. Goldschmidt & Co., and £3,200,000 six per cent at 89¼ issued in 1825 by Barclay, Herring, Richardson & Co.

enthusiasm; the songs of "Greek" Mueller, the father of the Oxonian Max Mueller, and his resounding call, "Without thee, oh Hellas, where would the world be?" did not pass unheard; English statesmen were then, as they have been at all times, classical scholars, and not in vain did Byron, the most powerful champion of the struggle of the Athenian State to shake off the Turkish yoke, die just at this time at Missolonghi in the cause of Greek Liberty.

The Greek Loan was deliberately boosted into a best-seller. A Philhellenic Committee was formed which included among its members Liberals of all shades; sympathy was stimulated for myrmidons of sternest mould in much the same way as other committees advocated the cause of the South American emancipators (who might with equal justification have been termed rebels). Themselves entirely above suspicion, the members of these boards thought they were the moving force, whilst in reality they were only pawns in the game, and they and subsequent committees and councils caused so much and such costly misfortune that finally the Council of Foreign Bondholders, formed in 1868 under the ægis of John Lubbock (Lord Avebury) had to try and enforce the claims of the investors whose rights had been so shamelessly neglected. In order to convert as many people as possible into Philhellenes, inspired articles were published in the press; with persuasive lips, from which the irresistible stream of speech flowed sweeter than honey, stentorian tones proclaimed at public meetings that it was the be-all and the end-all of the matter to procure the *nervus rerum;* for the waging of a war of liberation like any other war, required money. And so, after due preparation, a banquet at the Guildhall with the Lord Mayor in the chair saw on the 21st February, 1824, the launching of the Greek Independence Loan. The sun of Homer cast its radiance thereon; it was several times over-subscribed.

So much for the ideal side of the transaction; the reality which followed wore a very different aspect.

The total of £2,800,000 offered for subscription had produced £1,600,000 in cash,[1] and the happy possessors, Philhellenes of all shades, including many who were gratified to find a debtor prepared to pay them interest at the rate of 8·8 per cent, were one and all threatened by misfortunes compared with which those related in the Iliad perceptibly paled.

Probably made wise by experience, the issuers provided for the possibility of a remittance to meet the coupons not arriving on the due date by retaining £200,000; they were never faced with the embarrassment of having to give a receipt for an instalment from Athens. A further similar amount had to be left in London—since Hellas herself had to find the means of supporting the market, mainly in the interest of the issuing houses; as all is in motion, the possibility had to be envisaged also that enthusiastic subscribers might some day turn into disillusioned sellers. It was not only in the hands of the Greek negotiators, and definitely not on the knees of the gods that some hundreds of thousands had stuck, and remembering that war is the father of all things, and that it is as well to be prepared for every eventuality—including the fact that old ships might with advantage be sold to the youthful nation—another £160,000 was kept back; the choice of Commander-in-Chief of the Fleet fell on Lord Cochrane.[2]

From this second loan of £2,000,000 therefore, only £275,000 was left for Greece herself, and she had contracted a liability for interest of £100,000 a year. But it would be placing Philhellenic business capacity on too high a pedestal, and would arouse Homeric laughter to ask any one to believe that without further ado a cashable remittance was despatched to the Piraeus. Actually £60,000 went to Athens in stores, £33,000 in bills accepted and £182,000 in cash.

Such, in laconic brevity, is the sad and instructive history

[1] Greek Loan. In 1824 £800,000 five per cent loan was issued at 59, and in 1825 another £2,000,000 at 56½ by J. Ricardo.

[2] See Appendix page 393.

of the Independence Loan of 1825, on which for more than half a century Greece paid no interest at all, which defaulted in 1827 when the funds in London had been consumed to meet the coupons, and which remained dishonoured till 1879. That sentiment and finance do not go well hand in hand was to be proved.

TWO LITERARY INTERLUDES

GRUB STREET IN LOMBARD STREET

As a chimney can only smoke when there is fire, so a Stock Exchange boom can only come about when the public, undismayed by the doubts of the pessimists, insist on continuing to buy. Warnings on the part of the authorities merely have an unfavourable effect, and are anything but welcome to the issuing houses.

When, in 1825, the bubble began to assume fantastic dimensions, the Government considered it their duty to intervene; they compared the existing mania to the South Sea Bubble, and advised caution. To many, and among them John Diston Powles, this interference came much amiss; his promotions included the Anglo-Mexican Mining Association, he had made a lot of money and was anxious to go on making. It was imperative that something should be done to reassure the public, essential to prove clearly how wrong was the path trodden by the Government, and how brilliant were the prospects in South America. As Powles knew that effective work can only be done if you shrink from no expense, he enlisted the pen of an intelligent, able and indigenous young man who was in need of money, following the example of Robert Harley[1] who, in 1710, nine years before the publication of *Robinson Crusoe*, had pamphlets ("Public Credit" and "Loans") for the promotion of his South Sea schemes written by Daniel Defoe. The brilliant imaginative powers of Powles's youthful writer were most ably supplemented by his expert knowledge, derived from personal experience.

[1] Robert Harley, 1st Earl of Oxford.

This highly promising young gentleman had started speculating at the ripe age of twenty, and as this requires money which his father was incomprehensibly old-fashioned and prejudiced enough to refuse him, he had entered into partnership with the son of a wealthy stockbroker. In November, 1824, they began operations, and as they thought that prices were altogether too high, they sold for a fall. Quotations, however, continued to soar, and by the end of the year they had lost £400—a mere trifle, and by no means enough to induce a powerful combine to suspend operations. As bear attacks seemed to be a wrong move, they changed their tactics, and shifted their position—at the worst possible moment. Now that they had bought for a rise, a collapse immediately followed, and their debit balance rose to £7,000.

Not infrequently does a student who has not himself succeeded in passing his examinations feel well qualified to coach others; still more often is it observed that a speculator who on pay-day is unable to meet his differences, joins the scribes and instructs his contemporaries how to speculate. In the great and fathomless chapter of finance and journalism may be read a curious and fascinating subsidiary paragraph: under the patronage of Powles, the financier, a pamphlet was published, entitled "An Inquiry into the Plans, Progress, and Policy of the American Mining Companies"—the anonymous author's maiden appearance in print.

There is no need to quote from the well-got-up brochure, which contains some history, but not too much, reports on various ventures, their boards and results, wherein everything is looked at through rose-coloured spectacles, and from time to time we find the catch-words current to-day for similar uses. Nevertheless, we feel at our first reading that the author of this booklet was capable of better things than writing to order. The pamphlet went through several editions, and was even accorded the honour of a notice in the *Gentleman's Magazine*.[1] One thing, however—

[1] *Gentleman's Magazine*, 1825, January–June, page 440. The reviewer does not seem to have noticed that he was dealing with a book with a purpose—which says a good deal for the cleverness of its author.

needless to say—it was unable to do—to stay the drop in prices.

The purpose of the publication, therefore, was not achieved, nor were the young author's hopes realized of being able at any rate in part to settle his old differences. They remained as a bitter legacy, and in order to clear off existing liabilities he had to incur new ones—he borrowed. Nor did he ever succeed in completely freeing himself from debt; the several thousand pounds worth contracted in the mining mania of 1825 were not paid off till thirty years later, by which time Benjamin Disraeli, the speculator and pamphleteer of those days, had become Chancellor of the Exchequer and Leader of the House of Commons.

Lord Rosebery once described the chief products of Scotland as oatmeal and liberal M.P.s. Meyer Rothschild's witty son-in-law seems, however, to have forgotten that the London banker also, at least to the extent to which he does not come from yet more distant climes, is also of Scottish origin, and even the most English of all English banks, the Bank of England, was founded in 1694 by a Scot, William Paterson. The banks beyond the Tweed extended their operations long before Lombard Street began to stretch its wings. As no limit was imposed on the number of their partners, large companies of capitalists could carry on banking; without any kind of legal compulsion they issued regular reports on their assets and liabilities, with the result that in Scotland only "good men, in the mercantile phrase, showing by the wealth of which they have died possessed, that their credit was sound," could call themselves bankers, and that every customer was fully informed as to the position of his bank, a requirement which was not fully complied with in England until considerably later (in 1891).[1] In the English provinces every small trader was allowed to accept money on deposit and to issue notes which, however, only rarely had any circulation beyond a very limited horizon; the notes in Scotland passed without a shadow of objection throughout the whole country, although they were not legal tender, and in the full consciousness of its great strength the Royal Bank of Scotland occasionally even waged war against the Bank of England. With hostile afterthought the notes of the rival establishment were slowly accumulated

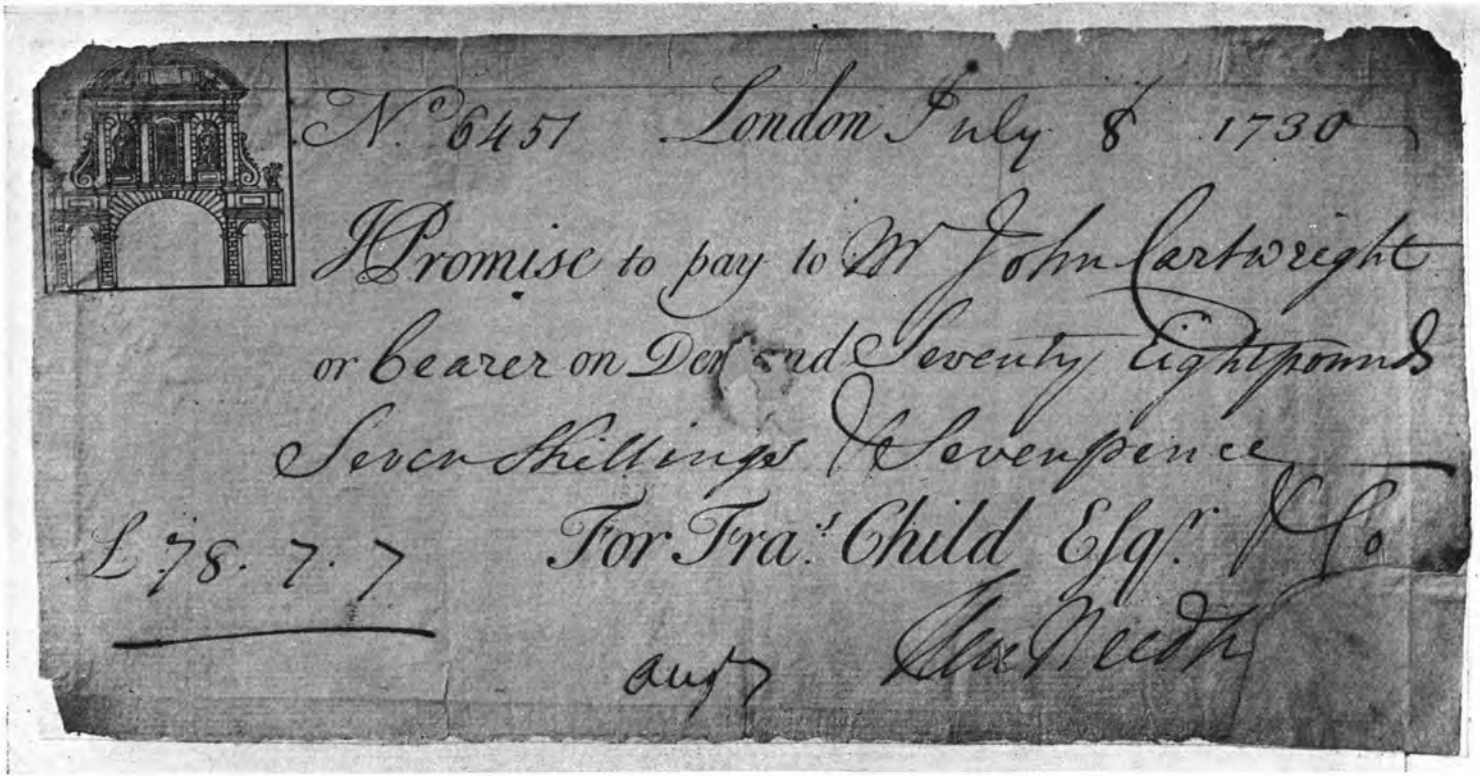
[1] Owing to the fact that the reports of the joint-stock banks appeared regularly, the more important private banks resolved, even before their incorporation as limited or unlimited companies (in 1891) to publish their accounts. (See page 287.)

and suddenly presented, thus causing small artificial runs. The fact that during the panic of 1825–6, when so large a number of English banks came to grief, not a single Scottish bank had to stop payment, was looked upon in the Highlands with justifiable pride.

This system, which was working excellently, was now to be improved in accordance with the reforms proceeding from London; it was intended to go to the very root of the evil, and in order to protect the country in future from the upheavals caused by an excessive note circulation, the private banks were to lose the privilege of issuing their own notes. In order to attain uniformity of currency this regulation was to apply to Scotland as well as to England.

This was a serious matter. The Scotch are excellent Britons, but they will always give the most eager support to any separatist tendency, and their feelings will be even more deeply aroused when the question at issue is one which affects the internal affairs of their kingdom. It was noted with great resentment that "there has arisen gradually, on the part of England, a desire of engrossing the exclusive management of Scottish affairs" and in no circumstances were the Scotch willing to abandon their well-proved banking system; the uniformity of currency was of interest to nobody. "In my opinion they might as well make a law that the Scotsman, for uniformity's sake, should not eat oatmeal, because it is found to give the Englishman the heart-burn," and "if you unscotch us, you will find us damned mischievous Englishmen," was the warning uttered by a great Scot, who thereupon took up his brilliant and experienced pen and proceeded to the attack. His letters, which appeared in the *Edinburgh Weekly Journal* in 1826 and were signed Malachi Malagrowther[1] started the ball rolling—the Highland spirit was aroused. Meeting after meeting was held to protest against the encroachment; petitions

[1] "A Letter to the Editor of the *Edinburgh Weekly Journal* from Malachi Malagrowther, Esq., on the proposed change of currency and other late alterations, as they affect, or are intended to affect, the Kingdom of Scotland, Edinburgh, 1826." The first letter was followed by two others; after their appearance in the Journal they were published in pamphlet form.


N° 6457 London July 8 1730
I Promise to pay to Mr John Cartwright
or Bearer on Dem^d Seventy Eight pounds
Seven Shillings & Sevenpence
For Tra^s Child Esq^r &c°
£78. 7. 7
Alex Peech
Cash^r

BANK NOTE

[*Photo: By Courtesy of the Institute of Bankers*

[*Face page* 52

with thousands of signatures went to London, and Westminster was compelled, whether it would or no, to give heed. "If a nice question of monetary or commercial policy could be settled by jokes," was the objection raised to the letters by Henry (Lord) Cockburn, "Malachi would be a better economist than Adam Smith"; but this was not at all apt. Malagrowther, who was far more than "by pedigree a discontented person" (as he himself put it) understood his business and knew how to present his able and well considered ideas in a brilliant and convincing manner. The letters are instructive and interesting, and if a polemical tract is to influence the masses, it must in addition be witty. Cockburn's plea that "poets may be excused for being bad economists" was the more superfluous as the letters succeeded in achieving their object; Malachi, "the lineal descendant of Sir Mungo Malagrowther, who makes a figure in the Fortunes of Nigel," himself makes a figure in the world's literature, for it was Walter Scott who wrote the letters.

The novelist himself was in those days, partly as a result of the crisis, financially in a bad way—perhaps even a very bad way—and to cut a long and disagreeable story short—against liabilities of £104,081 there were available assets of only £48,494. The banks behaved very well, and even the Bank of Scotland, after a few preliminary objections, agreed to an arrangement under which Scott was relieved from the worst consequences. Now, immediately after his crash, he saw the opportunity of proving his gratitude for the consideration shown to him; in the interest of the threatened banks the poet was able to throw the weight of the written word into the scales, and moved by a strong inner impulse he took up his pen—the more gladly as a national question was at stake.

These were the reasons which induced Sir Walter Scott to undertake his unromantic excursion into the Highlands of financial policy. His exertions met with full success—the Scottish part of the measure was dropped, and Scotland retained its banking system.

DISILLUSIONMENT

COUNTRY BANKS—NOTE CIRCULATION—THE BANK OF ENGLAND —CRISIS AND PANIC, 1825—THE BIRTH OF JOINT-STOCK BANKS

EVERYTHING turned out quite otherwise than was anticipated in the frenzy of intoxication—the fact being that nothing turned up—no gold, no silver, no pearls, and no remittances to pay the interest due on the loans. The butter produced by the pretty Scotch dairymaids would not keep, and besides, the people in South America preferred oil. Nor was the Isthmus of Panama cut through. A further ninety years were to elapse before this was achieved; "this is reserved for the future and for an enterprising spirit," said Goethe, the wise observer from afar of all the events of his day, who on the 21st of February, 1827, added to this opinion the uncannily prophetic words, "I should be surprised if the United States were to let an opportunity escape of getting such work into their own hands," and, "it is absolutely indispensable for the United States to effect a passage from the Mexican Gulf to the Pacific Ocean, *and I am certain they will do it*"—and it was America in 1914 who cut the Panama Canal.

It was hard enough that no gold should be raised from the mines, but after all this only concerned the shareholders who had sunk their money in them. But that money should be taken out of the country, that bullion should flow to South America—this was a general disaster which affected the whole nation. The enormous investments, the acquisition of mining rights, the financing of the overseas ventures—all these were bound eventually to have their repercussion on the balances of the Bank of England, and the $11\frac{3}{4}$ million £

in coin and bullion which remained in October, 1824, had by February, 1825, been reduced to $8\frac{3}{4}$, and by August to $3\frac{3}{4}$.[1] Like every other mania, the craze of 1825 also had the most serious consequences for the community as a whole.

In the days of the boom, when everything was *couleur de rose*, and the optimists believed that this state of bliss would last for ever, the country bankers profited by the position and showed undue readiness to give credit, financing it with their own notes. To such an extent had they lost sense of proportion that "with great impudence in many and a little fraudulence in some" they issued as many notes as ever they could get rid of, and paid a large commission to anyone who helped them in such transactions. The note circulation earned the big profits, while the small benefit derived from deposits was neglected.

The danger of over-production of means of payment, of an unhealthily high note circulation, always existed, but only materialised owing to extraordinarily bad times. The number of country bankers had rapidly increased during the last seventy years; in 1750 there were outside London 12 banks—or, to put it more correctly, shops in which banking was carried on, and before the era of industrialisation it would have been impossible to find openings for more. Round about 1793, however, they had risen to 400, and by 1820 there were (as against exactly 71 bankers in London) roughly 780, which merely required a licence to be able to issue notes of their own, and even this requirement had only come into force in 1808. The circulation of these notes was not, as in the case of the Bank of England, limited by Act of Parliament, but was regulated solely by the very elastic caution and the very variable and often exceedingly fluctuating soundness of the issuers themselves. In practice "any petty tradesman, any cobbler or cheesemonger," calling himself a banker, "could usurp the Royal prerogative"

[1] Between October, 1824, and October, 1825, a total of 12 million pounds was withdrawn from the reserves of the Bank of England.

and was able "to issue money without check or control." The result was most serious, and at the same time peculiar, for the country bank notes were often discredited in London, and generally, to put it mildly, unpopular, especially if the bank was far away and unknown. In the provinces, on the other hand, and especially in the more Northern counties, no person would take a Bank of England note if he could avoid it; it was only in and around London and in Lancashire that it was accepted without demur.

This excess[1] of paper money had a threefold effect on the country: a tremendous impulse was given to the desire to risk money in speculations, it increased the inclination of the bankers to be even more liberal than hitherto in giving credit, and it drove the metal currency out of circulation. Once timid folk begin to hoard gold, once there is even a suggestion that it might be better to have gold than notes, then a crisis may be said to be pending.

Invariably banks begin to be pernickety at the very moment most inconvenient for the business community; thus in 1825 they checked accounts which they ought never to have allowed to grow to such a size, and looked at securities—a thing they should have done when they were lodged. "Like a man who lends you an umbrella on a sunny day, but asks for it back the moment it starts raining" they called in the credits granted, and refused further accommodation. Enormous unrest set in all over the country, want of confidence was shown to firms which were in a position to pay as much as 40s. and 60s. in the pound; credit—that imponderable thing without which the business world cannot possibly exist, and which is most urgently needed at a time when no one is willing to grant it—had completely vanished, and William Huskisson, the President of the Board of Trade, found himself compelled to admit that "it was impossible to convert into money to any extent the best securities of the Government." Acts passed for

[1] Between 1823 and 1825 the Bank of England increased its note circulation by 35 per cent, whilst the country banks doubled theirs.

the public weal failed in their object, for the usury laws limited the rate of interest outside the Bank of England to five per cent; if it had been permitted to make a higher charge, hoarded private capital would doubtless have emerged from its hiding place.

Not until the crisis was in full blast did the Government appreciate the necessity of doing something for the relief of the trading community whose position was beginning to grow desperate; generous-hearted capitalists joined in the movement. At public meetings, summoned by influential and highly-esteemed men, it was resolved to make the utmost exertion to support commercial credit; Alexander Baring (Lord Ashburton) described the situation and demanded "confidence"; almost unanimously the assembly re-echoed the word. But meetings alone could not suffice; cash, which alone gives confidence, was the best, in fact the only remedy, to check the scare. So the Mint worked day and night at high pressure to coin sovereigns; for a week they were turned out at the rate of a hundred and fifty thousand a day, and sent to every town in England.

The Bank of England was not, at the beginning of the crisis, altogether equal to the demands made upon it. As the bankers' banker it had come to be in complete control of the cash resources of the country and to be the "very citadel of the money power"; its influence chiefly preponderated in the so-called great times—by great times being meant those in which things go so much awry that every moment looks like being the last. For the very simple reason that, in order to be able to pay out at their own besieged counters, they need the money themselves, bankers are compelled to withdraw their balances from the Bank of England, and at the same time this latter is expected to meet these increased demands. Whilst in normal times this rigid concentration of all liquid assets is of enormous advantage to commerce, now it constituted a serious danger. As the Bank of England was concerned about its own safety and never knew from day to day how long it would itself

be able to survive, it could not be certain what amounts would be necessary to meet its own liabilities and how much it would be able to advance to satisfy those of others. However, at the very last moment, the bank at the pressing request of the Government abandoned its hesitating attitude, and now left no means untried in attempts to master a situation which had almost degenerated into a panic. In order to replace the notes of the country bankers which were at best looked upon with suspicion and in most cases not accepted at all, the Bank issued two and one pound notes[1] and made loans by every possible means consistent with its own safety and in ways never before adopted: advances were given on the deposit of merchant goods, and to enable this great pawning transaction to be carried through the Government placed three million pounds at the disposal of the Bank. Now "the Bank discounted all the bills sent in as liberally as possible; they discounted everything," Nathan Meyer Rothschild said in commendation, and he admitted that "a great deal of credit was due to the Governor of the Bank."

The hope that the nation might "one way or another struggle through" was realised much more quickly than was anticipated. "Only tell us that we can get notes, and that will at once restore confidence," a deputation of City Bankers said to the Chancellor of the Exchequer, Sir Charles Wood, on the occasion of a subsequent crisis—in 1847—and this is exactly what took place in 1825—once the cash was available nobody wanted it. In the expectation of a run, a number of cautious bankers in the provinces had sent to London for gold, but many of these packages were sent back unopened. In Oxford a banker, with brilliant psychology, had the idea of exhibiting in his window a heap of gold; the Gurneys, in Norwich, placed a thick pile of Bank of England one pound notes on their counters—with

[1] None of the notes issued by the Bank of England was for a less sum than £20 until 1759, when £10 notes were first issued; the £5 note followed in 1794, £2 and £1 notes in 1797. By 1819 it had become possible to withdraw the last named from circulation, as in that year the Bank resumed cash payments, but now, in 1825, they were revived.

the result that in both cases hardly one of their own notes was presented for payment.

These, however, were exceptional cases; the crisis made itself felt amongst the banks most seriously, and by the time the panic was over, 104 banks in London and the country with a total liability of nineteen million pounds, had come to grief; but here also much righted itself in the course of time.[1]

Sir Peter Pole's bank—Pole, Thornton, Free, Down & Scott—struggled manfully against the ruin,[2] but in the end had to give in and headed the casualty list; the eventual results were far more serious than the insolvency itself, for Poles were London agents for forty-four country banks who all had credit balances with them. Matters in the provinces now got completely out of hand; one failure makes many, and outstanding among the numerous victims were Wentworth & Co., in York, with a note circulation of two hundred thousand pounds, and Sir William Elford's[3] bank known as Elford, Tringcombe & Clerk, in Plymouth.

Panic began to reign supreme in town and country; if by chance two or three people loitered outside some bank or other, at once the rumour[4] went around that there was a run on the establishment; the panic spread, and imme-

[1] When the panic broke out, there were 770 country banks, and 63 of them (that is 8.2 per cent, a very high proportion indeed) stopped payment. Only nine of them, however, crashed hopelessly; 31 made arrangements, and 23 paid 20s. in the £, thus being able to resume activities.

[2] The contemporary account of John Baker Richards, with Alexander Baring a Director of the Bank of England from 1805 on, gives a very vivid picture of those difficult times; see appendix page 393.

[3] Sir William Elford, Bart., the friend of Pitt, was a very versatile man, and his good name survived, long after the days of the calamity, as Mayor of Plymouth in 1797 and Recorder of that city for thirty-five years from 1798, as an amateur painter whose works were hung by the Royal Academy, as a Fellow of the Royal Society and as an excellent whist player.

[4] An interesting contribution to the psychology of the panic, and at the same time of the way in which rumours can arise, is given by H. O. O'Hagan, the financier (and according to his own account the originator of underwriting) in his *Leaves from my Life* (1929). He relates that a man who broke his leg lay in Lombard Street, was carried for first aid into the London & County Bank, followed by a big crowd, whilst another crowd collected outside awaiting developments. At once, first in the City, then in the whole of London, the report went around that a run was being made on the bank. Immediately arrangements were made by the prudent management to cope with it; all the other banks lent their aid, and notes were obtained from the country. When the next morning the Press brought accounts of the broken leg which was the fons et origo of the whole trouble, calm was restored.—Incidentally this event took place more than sixty-five years after the occurrences described above.

diately further misfortunes resulted. The Press did what it could to induce calm and reflection, and the *Morning Chronicle* uttered the sensible warning that "if all persons rush to the banks to draw out their balances, which the bankers must pay instantly, while they cannot compel their debtors to pay the balances due to them, the consequences must be very serious indeed. We can hardly conceive any amount of capital equal to this conflict."

But no amount of warning had or could have any effect; the storm must be allowed to wear itself out. The many stoppages of payment[1] in the country reacted on the metropolis; Remington Stephenson, a bank of great antiquity, which had been doing a considerable business ever since 1729, had to ask for assistance (and suspended payment in 1828 when one of the partners, Rowland Stephenson, M.P., absconded with a large sum of money). Williams & Burgess, Sikes Snaith & Co., who for a time carried on business as Boldero & Co., and whose origins went back to 1738, were, like their neighbours, Everett, Walker, Maltby, Ellis & Co., amongst the houses which, right down to the moment of failure, had been looked upon as first class.

In the storm which felled so many, two firms came to grief which were not bankers proper, but whose names came to be well known during the days of the boom (and are frequently mentioned in these pages) as issuers of foreign loans: in 1826 A. B. Goldschmidt & Co. failed and in 1828 Barclay, Herring, Richardson & Co.,[2] Colombia, which may have been a bad debtor but was a remunerative client for a financial house, was decidedly unlucky in its London agents, for the collapse of these two firms came at a time when the State had a credit balance with both. These were of course individual cases, yet these two insolvencies proved that in the long run it did not pay to have wild cat

[1] An eloquent picture of the magnitude of the crisis which broke over the whole of England in 1825 is furnished by the number of the bankruptcies: 1,358 in 1820; 2,683 in 1825, and 1,467 in 1830.

[2] For both houses see page 41.

dealings whose profit was solely dependent on the market position.

Not until the storm had severed the last of the weak branches was it possible for business to resume the even tenor of its way; once reports of failures ceased, then gradually lost confidence returned, the money market made a surprisingly quick recovery,[1] and the series of good harvests which followed on 1826 had their share in healing the severe wounds of the body politics.

As every crisis leaves behind it something good and of permanent value, so the crash of 1825 had one very curious sequel—thereafter newspapers began with regularity to publish money articles. Financial journalism was born.

But as from every other crisis, so also from this one attempts were made to draw a moral, so that the next time other mistakes might not be made. At all events the desire now, whilst the memory of the ills which had only just been surmounted was still fresh in everybody's mind, was to try for the future to avoid the dangers of unsound banking, and the Government at once opened negotiations with the Bank of England. As it was feared that disclosures on currency subjects might embarrass commercial transactions, a secret committee was formed, which consisted of statesmen, financiers, economists and practical men of business, prominent amongst whom were Sir Robert Peel, James Morrison[2] and Sir Henry Brooke Parnell, the future first Lord Congleton, a very eminent parliamentarian and practical economist. The final report of the committee, one of the most important instruments towards the establishment of sound banking in England, was laid before Parliament, and a stop was thus put to the system of mystery-mongering hitherto in operation, one of the most dangerous privileges of the Bank of England.

[1] Bank of England

		Circulation	Bullion
	28 Feb., 1822	£18,665,000	£11,057,000
(Height of crisis)	28 Feb., 1826	25,468,000	2,460,000
	28 Feb., 1827	21,891,000	10,159,000

[2] James Morrison, see page 100 note.

Not everything that far-sighted men would have desired to achieve at once could be done immediately, but the first result was of considerable importance; the Bank, which hitherto had confined its activities to London, was empowered to establish branches in order to be able to promote the circulation of its notes throughout England. In return it surrendered, at least in part, its jealously guarded monopoly of joint-stock banking, and permitted banks with more than six partners to carry on business for the time only—outside a radius of sixty-five miles from London.

Not the Chancellor of the Exchequer[1] in the Commons, but Lord Liverpool himself in the Lords, put the motion and obtained a successful vote. "The present system of law as to banks must now be altered," he stated; "it is the most absurd, the most inefficient legislation . . . it is one of the fullest liberty as to what is rotten and bad; but of the most complete restriction as to all that is good. By it a cobbler, or a cheesemonger, may issue his notes . . . while . . . more than six persons, however respectable, are not permitted to become partners in a bank with whose notes the whole business of the country might be transacted."

So from 1826 on it became possible to found joint-stock banks in the provinces.

The Act of 1833 went farther still; under it the notes of the Bank of England became legal tender, which until then they curiously enough had not been, and this time the Bank in return gave its consent to the formation of banks with more than six partners in the metropolis too; if it had had any idea of the results to which this concession would lead, it would probably not have made it, at least not then, for a shrewd mind, Thomas Joplin, soon discovered that now there was no obstacle whatever to founding a joint-stock bank in the City itself, if only it refrained from issuing notes. It was a real stroke of luck for the country that this time the Bank of England was not far-sighted enough, or that another was cleverer, for joint-stock banks had become

[1] Frederick John Robinson, Viscount Goderich and first Earl of Ripon.

a necessity. They alone, the limited companies with a capital which, if not unlimited, yet could at any time be increased to meet requirements, were capable of financing the new industrialised England and of complying with the ever-growing demands for credit.

In proper banking only the money of others is used, or as Ricardo puts it, "the distinctive function of the banker begins as soon as he uses the money of others," and the bank's own capital is not there to be used in business dealings, its province being to guarantee them. However wealthy the old private banker might be, he was unable to meet the new demands by himself. "Moral influence" and funds are fundamentally different things, and the deposits flowed into the young joint-stock banks.

THOMAS JOPLIN AND GEORGE FIFE ANGAS

NATIONAL PROVINCIAL BANK OF ENGLAND

THREE years before Walter Scott's Malagrowther letters a pamphlet called "The General Principles and Present Practice of Banking in England and Scotland" drew attention to new possibilities in banking; the author, Thomas Joplin, condemned radically the complicated English system and praised the simple Scottish one as an example worthy to be followed, and the phrase written in 1822, one hundred and fifteen years ago, that "banks are the fountain of our currency, the depositories of our capital, and at once the wheels and pillars of our trade," shows that Joplin must have been a most able and far-sighted man; it describes in the briefest terms the situation of to-day (and at most it might be possible to attack the use of the word "capital" in this meaning and context). In the astute and well conceived pamphlet—incidentally Joplin was the founder of the *Economist*[1]—was announced the discovery that the bank's charter "does not prevent public banks for the deposit of capital from being established." That joint-stock banks could be made remunerative even without the privilege of note issuing was a possibility which up to then had occurred to no one; Joplin showed that the project could be carried out, and wrote numerous articles in its favour, but he was too much of a theorist to be able to put it into concrete shape. The man who enabled it to be carried into practice was his cousin, Angas.

[1] The *Economist* acquired its world-wide importance under Walter Bagehot, the greatest of all practically trained theorists on banking and financial affairs, who in the 'fifties was for a time the London Manager of Stuckey's Bank (q.v.).

This George Fife Angas belongs to the great class of eminent Englishmen whose names have been relegated into the background by men of still greater eminence, and who are in danger of being completely forgotten. Fortunately his life's work was stronger than the memory of the compatriots.

A curious mixture of businessman, adventurer and philanthropist—a type not so rare in the early decades of the nineteenth century—Angas was both in spiritual and business matters a promoter on the grand scale—one whose guiding principle was religion. He founded the Sunday School Union in the North of England and the British and Foreign Sailors' Society; to him the slaves of Honduras owe their liberation, and for Great Britain he won New Zealand as a Colony. His greatest activities are shown in his work for and in this youngest Continent to which he emigrated in 1851; the South Australia Company and the Bank of South Australia were founded by him, and in 1837 the Union Bank of Australia came into being which had amongst its trustees George Carr Glyn, and which banked in London with Glyn, Hallifax, Mills & Co. (as they were known then). The bank was successful, and distributed satisfactory dividends, but when hard times overtook him Angas had to sell his shares, for even a religious promoter does not escape the slings and arrows of fortune. Angas earned a lot of money, lost it again and then made a still bigger fortune when the lands which he had bought recklessly rose enormously in value. During a hard and laborious life he well earned the honourable title of "father and founder of South Australia" bestowed on him.

A man of such wide outlook was bound to be attracted very considerably by the ideas of his cousin, Joplin, who in 1828 submitted to him a scheme for associating a number of provincial banks, with a certain amount of local government, but under the general management of a central establishment in London. The negotiations were long

drawn out, for the unrest caused by the Reform Bill hampered all adventurous-minded people, and it was not until 1833 that the scheme was revived. The funds for the first expenses were advanced by Angas, who hated extravagance, and as in later years he only found £859 2*s*. for the outlay on the Union Bank of Australia during the first six months, including the passage money for the clerks, so now he formed a bank in England at an initial cost of £300. The money was well invested, and it may be left to the mathematician to work out how this virginal unofficial working capital grew and what it earned in interest—facts which he can find in the balance sheets of the National Provincial Bank, formed in 1833[1] with a paid up capital of £101,545, which, including reserves, has by 1936 grown to £17,479,416.

The management of the bank was in London, but in order not to lose the right of issuing notes, the field of its activities was planted in parts outside a radius of 65 miles from London. It was not till 1866, by which time the National Provincial Bank had as many as 120 branches in the Midlands, that premises were opened in the capital, thereby causing a note circulation of £450,000 to be forfeited.

The Committee and first Board included Edward Blount, the railway financier, Angas and Joplin, the real father of the bank; this unpractical theorist propounded the idea of expanding the bank by the formation of separate subsidiary companies, with local shareholders and local boards; the management, on the other hand, and this at a time when centralisation did not yet form an integral part of the programme, opened branches without independence, and accordingly Joplin again forsook his child, which, however, grew and prospered, and four years later could show as many as 56 branches in various parts of the country, several of which were themselves the result of amalgamations. After his resignation Joplin tried to make trouble and put forward monetary claims in respect of his being a founder,

[1] By 1833 there were in the provinces as many as 32 joint-stock banks.

but these only caused unpleasantness, without leading to any result.

Joplin made hardly any money out of the National Provincial Bank or out of the formation of many other joint-stock banks in which he collaborated as expert. He was a pioneer, a combative theorist, but not a strong man.

JAMES WILLIAM GILBART

LONDON AND WESTMINSTER BANK

THE greatest power in the new joint-stock banks was Gilbart, a practical man and philosophizing theorist in one. Beginning life as a clerk, his insatiable thirst for knowledge found satisfaction in the Union Society, a debating club founded by John Stuart Mill, whose members included Macaulay. In his riper years he was interested in all departments of human knowledge, and enormously active with his pen in many directions; he became a Fellow of a vast number of mathematical, statistical, literary and other scientific associations, a great man, a great banker, a power of the first order in his own subject; he did not, as has so often been asserted, blaze the trail, and for this very reason he was so incomparably more successful than the pioneer, Joplin.

Although of Cornish descent, yet Gilbart was, as very rarely the case with bankers and therefore to be stressed out, born in London (in 1794). He received a sound and thorough education, and at the for those days considerable age of nineteen he entered commercial life and became a clerk, first in the City, then in the provinces, without being in any way outstanding among the thousands of his fellows. It was not till after he had written a scientific paper, "A Practical Treatise on Banking," that the attention of his chiefs was drawn to him; this purely theoretic publication had for him the eminently practical result that he was offered the post of manager by the Provincial Bank of Ireland. One of the Directors of that bank was Thomas

[*Photo : The Rischgitz Art Studios*

JAMES WILLIAM GILBART

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Spring Rice (Lord Monteagle) who in 1830 became Secretary to the Treasury and in 1835 Chancellor of the Exchequer. A connection between Westminster and the City is always of advantage to both parties.

Meanwhile Joplin's discovery had found disciples. A further committee was formed which toyed with the idea of starting a joint-stock bank within the City itself; William R. K. Douglas, of Douglas Anderson & Co., was its Chairman, who being a Scot was especially cautious, obtained a number of legal opinions, and induced the Solicitor-General expressly to confirm the fact of "there being no Act of Parliament or any other law whatever to prohibit such partnerships." When the committee had completed its preliminary labours—it sat in Winchester House, and as the formation of public banks in the City was looked upon with very mixed feelings its members were called Winchester Thieves—the next step was to look out for an efficient manager.

Several joint-stock-minded groups tried to attract Gilbart; he joined the Winchester House set, and on the 11th of May, 1833, the London & Westminster Bank opened its doors at 38 Throgmorton Street—the only one of the present Big Five which actually began business within the City of London[1]; on the same day a branch was opened at 9 Waterloo Place, Pall Mall (which was followed immediately by others at Oxford Street and in the Borough).

Gilbart had not chosen a smooth field for himself. At the present day all that a man requires for managing a bank is foresight, a good reputation, and above all sound common sense; expert knowledge occupies a secondary position, for all the routine work can be done by others, and an aptitude for this is easily acquired. Correct banking now-a-days is not laborious, it is simple; if any difficulty is encountered, then the banking is wrong. At the time, however, when Gilbart began to manage the London & Westminster Bank, very exact expert knowledge was required

[1] In 1836 the bank moved to larger premises in Lothbury, where the Head Office is situated to this day.

in addition to all the above, and banking was very difficult indeed. On all sides the new banks were met with suspicion, and were exposed to petty chicanery. It goes without saying that the Bank of England was opposed to the new establishments, and refused to open a drawing account for them; the private bankers—Jones Loyd once more assuming the leadership—took up a thoroughly hostile attitude, and could not imagine how it was possible to shift on to the shoulders of many the responsibility which pressed so hard on their own. Sir Thomas Potter, a wholesale merchant in Manchester and the first Mayor of that town, expressed the opinion that "a man is successful in business only when he can watch with his own eye everything that is going on, and that the same principle would also apply in banking," but in spite of this he was inconsistent even earlier than Jones Loyd—who did not allow his bank to amalgamate with the Westminster till 1864—for as far back as 1829 Potter promoted the Bank of Manchester (and incidentally in 1821 founded the *Manchester Guardian*). No one, however, not even these two great opponents, was able to stem the tide. But for a while the private bankers were in a combative mood and by no means satisfied with offering passive resistance; they became most active, and raised the greatest possible difficulties if ever one of their customers conceived the foolhardy notion of wanting to buy bank shares—which did not in fact arise very frequently, for in the early days joint-stock banks did not enjoy the privilege of limited liability, and it was not until 1858 that their unlimited responsibility[1] was repealed. In the Clearing House, where the private bankers reigned supreme, they declined to admit the new banks, refused them the facilities conferred by membership, and not until there remained absolutely no other way out, when the institution threatened to degenerate into a mere farce if the public banks remained excluded, were they granted

[1] Curiously enough many of the banks at the time refused to avail themselves of this privilege, and it was not until after the collapse of the City of Glasgow Bank in 1878 that the form of the limited company became general.

admission in 1854 after a period of waiting extending over twenty years. But far worse than all this was the fact that the law also refused to adapt itself to the new conditions and withheld from the banks the rights of a corporate body; until 1844 they could not be sued nor could they sue their debtors except through an officer, and bills drawn at less than six months (which was equivalent to bills generally), had to be accepted by a trustee.

None of these great obstacles, however, and no amount of chicanery, could stop first the rapid growth, then the triumphal march of the joint-stock banks; they eventually—to look for a moment into the future and show the final result of their gigantic development—grew so strong that when, on the pound sterling departing from the gold standard, one of their most important foundations was withdrawn from them, even this world-shaking event could not affect them, and business went on as usual.

That Gilbart, the first in the proud ranks of great bank managers, with tenacious perseverance, step for step and not without a strong dash of genius, won for the joint-stock banks their reputation in commercial life and their position in the structure of the Commonwealth, stands to his incontrovertible and everlasting credit. When in 1859 he retired from the active management of the Westminster Bank and joined the Board, the bank, which had commenced business with a paid up capital of £50,000 and only £30,000 in the cash box, had grown into a respect-inspiring undertaking with a capital of £1,250,000 and a cash balance of £694,000 (figures of 1854).

Under Gilbart's management the Westminster was the first bank to tread the path of amalgamation when in 1849 it absorbed Young & Son, Southwark (which was formed in 1795 under the name of Weston, Pinhorn, Golding, Mewsome & Weston). This landmark of the highest importance in the history of banking, was the first instance in England of a private bank surrendering its independence and becoming merged in a joint-stock bank.

CHARLES GEACH AND THE MIDLAND BANK

UNION OF LONDON BANK

THAT a good idea does not necessarily benefit by repetition, by being too frequently translated into action, is shown in the case of the joint-stock banks, which expanded far more than was reasonable or required. This prodigious extension helped speculation, which then led to new promotions, until it became impossible to draw a clear line between cause and effect.

In 1835, a year after Gilbart had made the first breach in the walls, there were in England and Wales thirty-five public banks; in the following year, however, the boom year of 1836, forty-two were added, with so many branches that six hundred and seventy additional banking houses animated the public to new activities. Three-fourths of these had their offices outside of London, and accordingly, in spite of their insufficient capital, had the right to issue notes, a right of which they made ample use. The Bank of England warned, but unburdened by tradition and trained by experience, none of the new ventures heeded its advice. More severe steps had to be taken: the Bank decided to stop discounting bills endorsed by a joint-stock bank of issue. The slump began. The Irish Agricultural & Commercial Bank, with thirty branches, was the first to close its doors. Esdaile & Co.[1] got into serious difficulties

[1] Esdaile, Hammet & Esdaile had been founded in 1781, and in 1791 they amalgamated with Smith, Wright & Co., formed in 1759, under the style of Sir James Esdaile, Esdaile, Smith, Wright, Hammet & Co. When the house stopped payment in 1837, the firm's name was Sir James Esdaile, Esdaile, Grenfell, Thomas & Co. The Esdaile whose Christian name is not mentioned was William Esdaile, the great connoisseur who owned a most valuable and almost complete collection of Rembrandt etchings and Claude Lorraine drawings.

which could only be relieved by means of a loan advanced by all the principal bankers in London.

The Bank did all in its power to stem the crisis, until it was itself bled almost white: in 1839 its gold reserve was at such a low ebb that it may be said without exaggeration to have been on the verge of ruin. That danger, perhaps the greatest in the history of Threadneedle Street, was only averted when, on the intervention of the Barings (see page 31), the Banque de France came to the rescue.

During the crisis the majority of the joint-stock banks, the promotion of which was so untimely, met with a timely death, and those which survived found themselves by no means on a bed of roses. Two only out of the crowd became prominent.

The first of these owes its birth to the dissatisfaction of a Bank of England employee, Charles Geach; he joined the Bank in 1826 at the age of sixteen, in 1828 was transferred to Birmingham, and there came to the conclusion that as a subordinate clerk he had no chance whatever of rising to a high position. Ambitious, shrewd and efficient, he managed, quite undoubtedly without the knowledge of his then employers, to profit by the existing financial situation; with the collaboration and assistance of local business men who remained in the background and of whom there is nothing to report, the Birmingham & Midland Bank came into being in 1826, at the very moment when the first railway line was connecting the city with the country at large. The paid up capital amounted to £28,000; not even the most daring amongst the shareholders could have dreamt (nor did dream) that his small company, promoted by a clerk who wanted to be independent and become a manager, would one day as "one of the marvels of modern finance" occupy a leading place among the great English banks.

The enterprising Geach became interested in iron undertakings and railway companies, held a considerable number of directorships, and co-operated in the erection of the Crystal Palace. When, in 1847, he retired from the general

managership of the bank in order to manage the town as Mayor and be elected to Parliament in 1851 (where, however, he made not the slightest mark), he was a wealthy man. The development of the bank, on the other hand, made little progress in the first years. Although plans for its expansion may have been under consideration at an early date, the first step was not taken till 1851, when Bate & Robins's Stourbridge Old Bank amalgamated with it. In the course of a few years Nichols, Baker & Crane was taken over; then followed a long pause till 1883.[1] After an existence on a very circumscribed scale of about fifty years the Birmingham & Midland Bank had the appearance and standing of one among many good provincial banks; it lacked a strong personality with initiative.

What William Gilbart had done for the Westminster Bank at the time of its formation, Edward Holden did for the Birmingham & Midland about half a century later: gave it a new appearance and great scope.

The Union of London, the only other bank to survive among the great number formed during the late thirties, remained from its foundation in 1839 for sixty-three years a purely metropolitan institution with only a few branches in and around London. All there is to report during the past century is that in 1859 it absorbed Dixon, Brooks & Co., who appear in the London Directory for the first time in 1788; that in the following year a dishonest cashier embezzled £250,000, and that this great loss had to be compensated in part by a reduction of the share capital. Expansions and concentration movements passed it by without a trace.

Of no immediate importance whatever for the extension of the Union of London Bank was the fact that in 1887 it took over part of the business of Schuster, Son & Co.; the ultimate consequence of the merger, however, was that the Board was joined by Felix Schuster, who subsequently,

[1] It was not till after the collapse of the City of Glasgow Bank that the management decided (in 1879) to publish its balance sheets; a year later the bank was registered as a limited company.

in the new century, became Governor of the bank and impressed on it the stamp of his great and international personality. For the time being, however, its history remained highly unimportant; it did not become interesting till 1902, when the fusion took place with the various banks of the old and respected Smith family.

But that is another chapter.

SAMUEL JONES LOYD, LORD OVERSTONE

PRIVATE BANKERS—JONES LOYD & CO.—PEEL'S ACT

CURIOUSLY enough there is no legal definition of a bank in this country. The very primitive interpretation taken over from practice that "by custom we call a man a banker who has an open shop with proper counters, servants, and books for receiving other people's money, in order to keep it safe, and return it upon demand" dates back to 1745, and is still valid after two hundred years. In other countries there may be a more adequate definition, but on the other hand banking itself has not been so good.

Banking was originally a side line; goldsmiths were making arrangements for the safe custody of their valuables, and in return for a consideration placed those facilities at the disposal of others; from this it was but a step to the opening of accounts for their customers. Child, Coutts and Hoare were the first to effect a change. Francis Child (his family can trace its lineage as far back as 1560) who, like the industrious apprentice in the fairy-tale, married the daughter of his employer (the goldsmith, William Wheeler), and in 1681 became possessed of the whole fortune of his wife and her family, was the first Englishman to divide the two branches of his business and make banking into a separate profession. (This, the oldest banking house in the City of London, was also the first to introduce pass-books and hand them to its customers.) James Hoare commenced keeping current accounts at Cheapside in 1677, and in 1693 migrated with his cousin, Richard Hoare, to Fleet Street, where, at No. 37, Hoare's Bank remains to

this day. Coutts & Co., whose predecessors are first mentioned in 1692, have since 1761 been exclusively bankers.

Merchants also found it highly lucrative to handle the monetary affairs of their customers, and to their regular commerce they began to add an irregular banking business. Especially characteristic as regards the development of the great private firms is the history of Smiths Bank; in the middle of the seventeenth century they were wholesale drapers in Nottingham, who offered to look after the remittance of their customers' moneys to London. As a start branch establishments were set up in Lincoln and Hull, and when the business grew to such an extent that an agency in London seemed called for, it was in 1759 placed not in the hands of a banker, but of the very wealthy former hosier and haberdasher, Payne, who subsequently became a partner. Denisons (Denison, Heywood, Kennard & Co.), before beginning banking in 1806, were agents for woollen manufacturers (incidentally William Joseph Denison was the brother of Lady Conyngham, the somewhat dangerous friend of George IV). Williams Deacon & Co., whose name first appears in 1771, but who had come into being considerably earlier, imported iron from Sweden, Twining, Richard & Co. were, until 1824, tea dealers, and the Joneses (Jones Loyd & Co.) were cloth manufacturers at Manchester.

It is characteristic of the further development of banking in England that of all the great houses mentioned above (and the list could easily be lengthened) Hoare's Bank (C. Hoare & Co. was registered in 1929 as a private company with unlimited liability) is the only one which survived the great transformation as a separate entity and has preserved its independence to this day; this bank and Glyn, Mills & Co., who appear to have commenced in Lombard Street between 1740 and 1745 under the style of Vere, Glyn & Hallifax, are the only ones left of the stately ranks of the genuine private bankers which a hundred years ago (in 1837) numbered as many as sixty-four; the remainder

have in some way or other become absorbed in the joint-stock banks. The last to succumb were Child & Co., who in 1924 became incorporated with Glyn Mills & Co. Coutts & Co. who, after having in 1892 become a limited company, and thanks to their acquisition in 1914 of Robarts Lubbock & Co. (Lord Avebury had died in 1913) obtained a seat in the Clearing House and a City branch, were in 1919 taken over by the National Provincial Bank; but as it was considered undesirable to drop the world-renowned name and it was feared that some of the conservative customers would not be too willing to entrust their accounts to a joint-stock bank, it was decided to leave Coutts & Co. to outward appearances independent. Smith, Payne & Smith allied itself with the Union Bank, and the great combine resulting from this operation (Union of London & Smiths Bank) was in 1918 absorbed by the National Provincial Bank. Denison's was in 1864 merged in the Consolidated Bank formed a year earlier, which was itself in 1896 amalgamated with Parr's Bank; this, in turn, was in 1918 fused with the Westminster Bank. Williams Deacon's bank in 1930 joined forces with the Royal Bank of Scotland. Twinings' were in 1892 absorbed by Lloyds Bank (but their tea business still exists).

As will be seen, banking was originally a trade, but rapidly developed into a profession, into an "agreeable business, bringing with it a pleasant intercourse with various kinds of people, and giving the opportunity of very much and most important good to be effected." In 1830, when this sentence was uttered by Samuel Gurney, the Quaker-banker and philanthropist (who together with Nathan Meyer Rothschild launched the Alliance Assurance Company in 1824) it was not by any means self-contradictory. To-day, after the mechanization of the various organizations, it no longer sounds quite convincing, for owing to the many outward and inward changes which have taken place in the mentality of those who at present carry on this calling, the profession has in the meanwhile grown into an art. Whether

or not this transformation is an advantage to the vocation itself cannot here be discussed, but it may strongly be doubted; what, however, admits of no doubt is that Thomas Coutts, Samuel Gurney and William Gilbart were no artists, but were great bankers, and a still greater was Samuel Jones Loyd.

Even if his father's tenure of the office had been longer, it is improbable that the Rev. Lewis Loyd, a Non-conformist divine, would ever have become as outstanding as an ecclesiastic as he became brilliant as a banker; on the other hand, it is a sign of his great persuasive powers that he induced Sarah, the wealthy daughter of the Manchester manufacturer-banker, John Jones, to become Mrs. Loyd. He said good-bye to the clerical profession, became his father-in-law's partner, and, thanks to his abilities, was the real founder of the house henceforth known as Jones Loyd & Co. He was one of the first to recognise that, in order to be able to develop on broad lines, a country banker must make himself independent of a London agent and be represented in the Metropolis by a branch of his own; and accordingly, in or about 1784, the firm was established in London. Able and far-sighted to a degree, this extra-ordinary man, of whom unfortunately not very much is known, was endowed with a biting wit; when, in 1828, Frys & Chapman—Joseph Fry was the husband of the great reformer Mrs. Fry (Elizabeth Gurney)—had to close its doors, he told a Quaker client who had been wise enough previously to withdraw his money and to entrust it to a "more sophisticated house," "Thou wer't right, Friend; it is wiser to place thy money with a rich sinner than with a poor saint." When he died in 1844, Lewis Loyd was a very wealthy man.

In the paternal bank the youthful Samuel, after having shown himself both at Eton and Cambridge to be a good classical scholar and having taken his degree in 1818, learnt banking. In politics he was actively engaged for only a short time, from 1819 to 1826 as member for Hythe, and it was not till 1860 that, as Lord Overstone, he again actually joined the ranks of the lawgivers. But as successive Chancellors

of the Exchequer, and above all Sir Charles Wood, consulted him on all important banking and currency questions, he never, in fact, ceased to be one of the greatest powers behind the financial and economic questions of his age.

A single source for the issue of money had now become an urgent necessity. Peel always needed someone who influenced him,[1] and the fact that in financial matters he turned to Loyd, does not call for much explanation, and does not justify Lord George Bentinck in sneering at "the moneyed interest—the money changers and usurers—Jones Loyd, Peel & Co." In accordance with the Banker's views the Bank of England was divided into two distinct departments, and has remained so to this day: one for the issue of notes, the other for the transaction of ordinary banking business; an end was put to mystery-mongering, and henceforward the Bank had to publish its accounts. As long as things went well a perfect correspondence between paper issues on the one hand and securities and precious metal in the possession of the Bank on the other was aimed at and achieved. The 18th July, 1844, is a memorable day in the economic history of this country, for it saw the new Bank Act—Peel's Act—placed on the Statute Book. English finance dominated the world, and was itself in turn dominated by a rule which eventually met the same fate as all the many diplomatic treaties, conventions and alliances. When the time came for putting them to the test, it was found that they were mere scraps of paper, and Peel's Act failed as a safety valve, and had to be repealed. Its first breakdown occurred three years after its enactment, during the crisis of 1847 brought about by the fact that too large an amount of capital was sunk in railways; another happened in 1857 when

[1] Disraeli said of Peel: "There was always some person representing some theory or system exercising an influence over his mind. In his 'sallet-days' it was Mr. Horner or Sir Samuel Romilly; in later and more important periods it was the Duke of Wellington, the King of the French, Mr. Jones Loyd—some others—finally Mr. Cobden."

the depression coming from America had reached its height, and the last in 1866 after the Overend & Gurney collapse.

A great deal—far too much—has been said, written and printed both for and against the Peel's Act since its enactment nearly a hundred years ago, but no law in the world will ever be able by means of rescripts to neutralize or to prevent commercial crises. But if it is possible by wise legislative provisions to check and mitigate such crises, then everything humanly possible has been done, and in this respect Peel's Act has done its duty.

Jones Loyd, the super-superlative, the scientific expert, was thus in very truth one of the makers of the Bank of England in its present form and of the financial government of this country. All the same the saying, so often quoted because applicable to so many, that no one is more doctrinaire than the practical man turned author, fits no one better than Loyd —for it was first used of him. It may be doubted whether it is altogether a compliment to his memory to call him "the father of scientific banking"; that this transformation came, only goes to prove that the older generation of bankers, who with all their caution retained something of the dashing spirit of the gentlemen adventurers, had begun to die out, and that private banking was falling on evil days.

Politically Loyd stood on the side of the Liberals, yet his views were those of a die-hard Conservative, and he never possessed the gift of grasping readily a new development or of being able to meet a novel demand. It is largely due to him that this country neglected to adopt the decimal system; "they had made their money as bankers and merchants under the old system, and that as that was good in the past, it would be good enough in the future" is the conclusive statement in the Commission's report which he signed jointly with John Hubbard,[1] and "the way in which Jones Loyd looks at it" was decisive in Westminster. That

[1] John Gellibrand Hubbard, a Russia merchant, was also an authority on financial questions, chiefly those connected with income tax; from 1835 on he was on the Board of the Bank of England, and in 1887, two years before his death, was raised to the Peerage as Lord Addington.

this saying of Mr. Jawkins in Thackeray's "Book of Snobs"[1] was immediately understood by the reading public of 1848 without any further comment does much to show the banker's popularity. He never had emotions, had "a perfectly logical mind, admitting nothing, forgetting nothing, never at fault . . . in sum, remorseless" but he was somebody.

The joint-stock banks found in Loyd a relentless enemy; even if he, the expert, did not go quite so far as Cobbett, who in financial matters was somewhat irresponsible and stated that these institutions were "foolish tricks," yet he expressed the hard and one-sided opinion that they were "deficient in everything requisite for the conduct of banking business except extended responsibility." This explains to a great measure why the young establishments in their early days suffered so many blows and still more rebuffs, and throws considerable light on Gilbart's bitter complaint (in the first annual report of his Westminster Bank), that obstacles were placed in their way "of no ordinary kind caused by an opposition in some degree natural, but carried to an unfair extent by existing establishments."

Much as he disliked them, Loyd yet foresaw future developments with an uncanny clearness; " . . . bank fusion to an extent one can only imagine with difficulty will at some crisis of the country's fortunes become inevitable. Given a long war, at a cost quite inconceivable to-day . . . the banks . . . will be absolutely driven into alliances among themselves, which, whatever may be said about them, will be not only a national necessity but a remunerative precaution." About sixty years after the above words were spoken, when the events there foretold had become actualities, the struggle for alliances assumed the form of keenest competition.

In the early 'sixties this most inveterate of all enemies of joint-stock banking came to recognize that necessity may be stronger than principles, and it was another sign of his

[1] "By evening-paper time he (Mr. Jawkins, the Club snob) is at the Club: 'I can tell you the opinion of the City . . . and the way in which Jones Loyd looks at it is briefly this: Rothschilds told me so themselves.' " (chapter 38).

foresight, but also of the luck which attended him, that his merger was effected prior to the great crash which shook the City in 1866. It was a day of triumph for the banks, and in particular for the Westminster, when in 1864 the house of Jones Loyd & Co. amalgamated with it—or to put it more plainly, was compelled to surrender its independence. Within five days negotiations had come to a successful conclusion and the price for the goodwill and the premises fixed at £187,500. Although he would have been an ornament of its Board, as of any other, Samuel Loyd, Lord Overstone, did not become a director of the Westminster Bank.

There is no doubt that he did the best thing to protect the interests of his depositors by amalgamating, but it is equally certain that this man who had so many irons in the fire—he was one of the leading promoters of the Great Exhibition of 1851, became a D.C.L. of Oxford in 1854, and was a Trustee of the National Gallery—also did the best thing in his own interests, for when he died in 1883 at the ripe age of eighty-seven, he left a fortune of over two million.

When the largest private bank not only in London but in England, a house in which foresight and experience had descended from one generation to another, was absorbed by a joint-stock undertaking, the private bankers recognized that the evening of their day had come; each saw clearly that he was faced with the same ineluctable fate. "The amalgamation of the still existing houses with great joint-stock banks has become a mere question of time," was the only too true prophecy of a banker; "private banking has now ceased to be of any importance," and the *Daily Telegraph* expressed the opinion "the event is in itself the greatest blow that had ever yet fallen on the system of private banking."

What had been so carefully thought out by Overstone and put into legislative form by Peel was soon called upon to stand the test of actual working.

The bumper harvests of 1842 and 1843 had released large sums of money; so great was the glut of capital that the market rate of discount had fallen to 1¾ per cent, and vast amounts had accordingly been invested in industrial and commercial enterprises; but a turn in the kaleidoscope came all too soon. The failure of the potato crop at home and of the cotton crop abroad coincided with the collapse of the railway share speculation: shares to possess which the public had almost come to blows, were now wanted by nobody. Wheat, on the other hand, rose to 131, and its import was looked upon by many as the best possible of all good businesses until the market was swamped, the price fell to 40s. 3d., and the importers were ruined. This was the start of the débâcle. The situation was critical and threatened to grow worse unless immediate relief were found; the Bank of England, however, bound by the new Act, could not issue notes above the prescribed amount, and was therefore unable to intervene, and accordingly a "season of pressure" became a crisis. Manchester and Liverpool were the centre of the storm which overwhelmed hitherto strong and wealthy mercantile houses, amongst them Robinson & Co., whose senior partner William R. Robinson was at the time of the stoppage Governor of the Bank, whose Board included Sir John Rae Reid, of the firm of Reid, Irving & Co., Abel Lewis Gower of Gower & Nephews, and William Little, of Richards, Little & Co., all three firms being amongst those which failed.[1]

There came a fearful succession of the most painful disasters. Consols which in 1845 had averaged 98¾, in October, 1847, fell to 78¾. The Government showed great uneasiness and still greater indecision. John Russell, the Prime Minister, requested the most detailed information as to the situation both from the Governor of the Bank, and of course also from Jones Loyd, but it was really too much to expect this banker to give an unprejudiced opinion,

[1] By the confiscation of their holdings in Bank Stock these gentlemen became disqualified for their respective positions in the bank.

since in point of fact it was his own Act that was being discussed. Consequently Lord John reported to the Queen that "without the least reason" the Act of 1844 was being "generally blamed." In his view "the accommodation afforded by the Bank has been large, liberal and continuous," and he believed that "any interference by Government in the way of issuing more notes might postpone but aggravate the distress." This report was written on the 9th October; on the 18th the Royal Bank of Liverpool collapsed, and on the 23rd it was at last admitted that the situation could be saved only by an issue of notes over and above the prescribed limit: by the repeal of Peel's Act.

In this way the worst was averted; the mere knowledge of the Bank of England's authority to issue notes beyond the prescribed limit was in itself sufficient to allay panic.

At the time the depreciation in securities and property was, perhaps somewhat too pessimistically, estimated at £400,000,000; failures of banks and mercantile houses accounted for roughly £80,000,000. In spite of all this, however, England, whose invisible reserves had increased considerably, recovered relatively quickly. On the Continent, to which the crisis had spread, matters did not right themselves so easily. Paris, Amsterdam and Hamburg were the scene of numerous stoppages of payment; South Germany was especially affected, and in Carlsruhe the Bank of Haber & Co. closed its doors.

THE VON HABERS

THE Habers, who had become prominent during the Napoleonic wars, were towards 1820 among the greatest money powers of Germany, perhaps even of Europe; they had—a fact which, coming as it does in the first decades of the nineteenth century is particularly noteworthy—started and financed considerable industries in Wuerttemberg and Baden, and had therefore settled down in Carlsruhe, the capital of the Grand Duchy of Baden, a small town which in other respects offered few attractions. In the impoverished State Samuel Haber became the friend and ever-ready saviour of Finance Ministers who were often at their wits' end; he became Court Banker, even Prussian Court Agent, and as the Eichthals did in Munich at about the same time, he occupied a position not so different from that held a century earlier by his actual ancestor, Jew Suess Oppenheimer. When in 1829 his Sovereign granted him a patent of hereditary nobility he seemed to have arrived, but at the same time complications assailed him. The old aristocracy looked upon the new-comer as a thorn in its side, and even a hundred years ago it was an easy matter to convince the German people that it would be an appalling calamity for the country if a wealthy, liberal and cultured Jew were to occupy a high position. In order to show publicly how much he esteemed the man and how important it seemed to him that he should not be driven away in disgust, the Grand Duke Louis, when the disturbances outside Haber's house were repeated, drove with him through the town in an open carriage, and on a subsequent occasion, when feeling in Baden again rose high, his successor, Leopold, whose wife, Sophia, of the

Swedish family of Wasa we shall meet anew in the history of the Habers and the Chronique scandaleuse of the South German Courts, himself visited the threatened house. But in course of time the aristocracy grew tired of stirring up trouble, and the population, bored with rioting, accepted the bankers and the bankers Carlsruhe, which latter was perhaps the more difficult to do. The younger Habers were, at least at the start, fairly well liked all round, and were even considered worthy of intermarrying with the Rothschilds.[1]

During the crisis of 1847 the bank got into serious difficulties. The founder had died in 1839 and his successors had assumed obligations on behalf of their industrial companies which, when bad times came, were beyond even their great strength; so in order to secure relief they made somewhat excessive use of the privilege of a respected house and put into circulation bills bearing their own signature. The vast number of these was bound in time to attract attention in Frankfort, the nearest and indeed the greatest bill market in Germany, especially amongst the Rothschilds, the leading discounters, who, in spite of their family connections, refused to take up the Haber bills. When this became known, a run started and the most insane gossip, such as arises in all crises, went the round.

The rumours were too characteristic to ignore them. It was said that Rothschilds had entered into a secret agreement with Palmerston whereby this statesman would see that Lionel de Rothschild got a seat in Parliament, in return for which the bankers had undertaken to ruin the German industry. The campaign was to begin, so the story ran, by refusing credit to the Habers, and by this means injuring the most important of the factories in Southern Germany.

[1] A sister of the London Nathan Meyer Rothschild, Babette, married in 1808 Siegmund Leopold Beyfus; two of their daughters married Habers, Henriette in 1836 Jordan, Julie in 1840 Maximilian von Haber. The bank of Beyfus Brothers, which in 1857 changed its name to L. von Steiger & Co., went into liquidation in 1895 after an existence of nearly two hundred years. A third of the Beyfus daughters, Charlotte, was married to Abraham Oppenheim, a brother of Simon Oppenheim, who were both partners in the still existing bank of Sal. Oppenheim Jun. & Co., of Cologne.

As nothing is too stupid to be believed, these rumours got into the newspapers, questions were asked in the Baden Chamber, and in order finally to be left in peace Rothschilds made a public statement that Habers had never applied to them for credit, that consequently it was impossible that they should ever have refused to continue it, and that in point of fact Habers had never even had an account with them. The explanation was fairly comprehensive, but did not include the denial of another charge which had been publicly brought against the Rothschilds. This was that after they had been informed by the Habers how things stood and had been asked for assistance, and, upon their refusal, were begged to exercise the greatest discretion, Rothschilds had immediately sent messengers to various intimate friends warning them; the result was that a number of good-sized accounts were closed and those charges have never been refuted.

In place of the relatives it was the State which, with quite amazing determination intervened and took over complete responsibility. In this way the Habers escaped their difficulties; nobody lost so much as a penny, and when everything had been settled, it was found that even the capital of the partners had suffered only very lightly. They remained so wealthy that six years after the interlude, in 1853, Samuel von Haber the Younger became one of the chief founders of the Darmstaedter Bank and held a considerable block of its shares; and in 1855 he also took an important part in the formation of the Creditanstalt, in Vienna. Like so many wealthy and still more far-seeing Jews of those days, he left Germany, and in 1860 settled down in Paris. In the house in the Avenue des Champs Élysées which was subsequently inhabited by the great engineer, Gustave Eiffel, and at his country place of Courance, near Fontainebleau, he kept up vast establishments; his fortune was subsequently computed at about a hundred million francs.

Moritz von Haber, another member of the younger

generation, had tired very early of the provincial city; his mind turned to Europe, politics and adventure, but not to banking. In about 1820 he left Carlsruhe and cut a figure in the great world of Paris and London. Urged by strong Conservative leanings and without deriving the slightest financial advantage or being personally interested in the struggle, he supported Don Carlos. It was not till 1839, after the death of his father, that he returned to his native land after an absence of nearly twenty years. The ruler at that time was the Grand Duke Leopold, who had, it is true, behaved very well towards the Habers, but was at bottom a quite commonplace person who completely neglected his Swedish wife, an intelligent, experienced and high-spirited woman. She and Moritz von Haber, two absolutely unprovincial beings, were most strongly attracted towards each other. Nothing can be either proved or disproved, but the next child which the Grand Duchess brought into the world is said to have had unmistakably Jewish features, and was known all over the country as the Jewish child. Haber did not possess the gift of discretion necessary in so delicate a situation; he felt so sure of himself that he hazarded idle and ill-considered statements, and there was an almighty scandal. As it was impossible to attack him by straightforward means, the aristocratic Court set devised a plan of impugning his honour and making life impossible for him; it was said and printed that in Spain he had been guilty of some dishonourable action, but that accusation had to be withdrawn because the information was wrong. The persecuted man challenged his opponents, whereupon he was declared unworthy to fight a duel, and his seconds were officially compelled to retire from their position. Subsequently, however, he had the satisfaction of forcing his enemies to face him pistol in hand, and in a series of duels three men were killed. Meanwhile the aristocracy had once more taken up the weapon which had never been known to fail: the Carlsruhe populace was mobilised, Haber's house was looted, and the only reason why he himself

was not taken into the protective custody of a concentration camp was that in those days concentration camps had not yet been invented. The authorities, however, became strangely anxious for his safety, and on the pretext that they were unable to safeguard his life they expelled him out of hand. The apotheosis of this interlude was that for the first time for many years the Grand Duke drove with his Sophia in an open carriage through the streets of the capital—which seems to have been a universal panacea for all ills.

When Moritz von Haber was in London, he had also formed various literary relations, and when the *John Bull Book* was being prepared for publication, he got into touch with John Murray. This literary attack on (Reform Bill) Grey appeared in 1832 under the title of "England or France; or a Lure for the Ministerial Gallomania". The collaborators were numerous: "It is written by Legion, but I am one of them, and I bear the responsibility," the editor, the twenty-eight-year-old Disraeli, wrote to the publisher. Although his father had warned him, "Beware, my dear, of secret agents," one of his chief coadjutors was Moritz von Haber. The relations between the two men, who both had leanings towards mystery and intrigue, lasted a number of years. When, in 1836, Disraeli's affairs were once again involved, he hoped for an improvement, so we learn, through the receipt of a thousand pounds, "the result of a piece of business which has engaged my attention during the last five months, and respecting which I have twice visited the Hague,"—in other words the local representative of the Habers. It might have been very interesting to meet Disraeli again, eleven years after the Literary Interlude of 1825, in the banking business, mingling with the mighty men of money; but, probably to his great disappointment, the affair in question—it seems to have been connected with a Swedish Loan—came to nothing; nor was the young man's still greater ambition to become the London agent of the Messrs. von Haber to materialise.

LOMBARD STREET FOUND WANTING

RAILWAY BANKERS AND BANKERS OF RAILWAYS—GLYN, MILLS & CO.

WHEN, after the Napoleonic Wars, the necessity arose for reorganizing the whole situation in England and for financing Europe, the Money Powers carried out their task with a marvellous *élan*, the like of which had hardly ever been seen before, and the world was filled with envy whenever it turned its eyes towards Lombard Street. During the Industrial Revolution also they did their part well in so far as the experienced counsel and helping hand of the bankers were required, but when the Railway Age dawned they were found sadly wanting. Hide-bound in their all too rigid Conservatism, they refused to be convinced that the construction of railroads meant the most gigantic enterprise of modern times—perhaps of any times. They neglected to take their share in a development which was to transform the ideas of mankind, the face of the world and all conceptions of time and space far beyond the political and financial situation, and to an extent far greater than was achieved in our day by the airship and the aeroplane. They held fast to the view "that a railway could not enter into successful competition with a canal; even with the best locomotive engine the average rate would not be but three and a half miles per hour, which was slower than canal conveyance"—a prophecy which was negatived in the most convincing manner in practice, when in 1830 Stephenson's engines attained a speed of thirty-six miles in sixty minutes.

This failure of the Money Powers had the most serious consequences upon the planning of the railway system and the development of the various companies. The bubble of 1845 and the subsequent panic of 1847—a railway panic—could have been avoided, but as the bankers remained obdurate—Glyn, Mills & Co., formed from 1837 on a belated exception—the English railway organization was at the start shunted on to wrong and precarious lines, and for several decades did not run smoothly.

This is not to say that the building of railways began in England later or was carried out on a smaller scale than in other countries. On the contrary; the first public passenger carrying railway in the world was opened on the 25th of September, 1825, between Stockton and Darlington, and the locomotive invented by the Englishman George Stephenson (first tried successfully in 1814) pulled on the 15th of September, 1830, the first railway train definitely built to carry passengers and goods. When, however, we come to look at the number of railway lines, we find that thanks to the uncontrolled and therefore unlimited building mania, many were constructed which could have no other object than to compete with and injure others. But as happens so often in the history of this country, flagrant mistakes turned out to be blessings in disguise—England could boast of the magnitude of her system, an enormous amount of experience was accumulated, and Thomas Brassey and his navvies[1] used English material in building railways all over the globe.

This result, however, was achieved at a gigantic cost to the initial holders of English railway shares. One bubble resembles another, nor do panics differ so very widely from each other, no matter whether foreign loans, gold, rubber or railway shares are the goods to be boosted up, and the way to start a boom was just as well known in 1845 as it was exactly fifty years later during the Kaffir Boom.

[1] Originally workmen employed in digging canals, "inland navigators"—hence navvy.

But the reason why this railway mania is so particularly interesting is that it gives an instructive example of the way in which even the soundest ideas can, in the hands of optimistic, excitable and commercially untrained men—intermixed occasionally with unscrupulous swindlers—cause enormous mischief, and how a blessing may turn into a curse. An immense number of mistakes and incalculable losses might have been avoided—in 1846 the sum of a hundred and thirty-two million was expended in railway construction, and in the following year ten Corporations alone lost capital amounting to seventy-eight million—if Lombard Street had been more far-sighted and had taken matters in hand. The worst paying railways, even in later times, were generally those whose finances were not being managed by bankers, and in America the vast majority of the lines which passed into the hands of a receiver were roads not controlled by Wall Street.

As things stood, however, from the very start all the lines—far better constructed than managed—were inflated, and what made the building of railways in England particularly costly were the legal expenses—insanely high and "a disgrace to civilisation." Thomas Brassey, the great contractor, reports that he completed the sixty mile stretch from Novara to Turin for about the same money as was spent in obtaining the Bill for the railway from London to York. A further snag in the way of the serious investor who felt his responsibility, was the legal constitution of the first companies—there was no limited liability in those days, and every holder of one share could be called upon to assume the whole liabilities of his Company—an especially strong deterrent in the case of railway ventures, for in the early days there was no possible means of comparison, nor was any previous experience available; the sole incentive to participation was hope.

In spite, however, of all these obstacles, the bargains in railway shares assumed quite fantastic proportions. Up to 1843 a comparatively small number of jobbers had been

dealing in the share market; two years later the Stock Exchange (which in 1802 had moved to Capel Court, roughly where it is at present) had become too small for the enormous amount of dealings, and the Royal Exchange and surrounding Coffee Houses were the scenes of vast turnovers. Sir Josiah Stamp and his confrères to-day can afford to be administrators and statesmen in business without worrying over-much about the market quotations of their shares. Now Samuel Laing was an authority of the very first rank, was in Parliament as a "railway member" and in turn Chairman of the London, Brighton & South Coast Railway and Secretary to the Railway Department of the Board of Trade under Gladstone. Yet he and his pioneer colleagues were compelled to employ market tactics; for the prospectuses, circulars and advertisements with which, for lack of a responsible financier who would sponsor the issue, the companies appealed direct to the public, could find a ready response only if a fat and immediate premium loomed in the offing. A new and hitherto unknown species of operator made his first appearance and has to this day managed to hold his own quite well in the struggle for life—the stag[1], and thanks to the immense number of advertisements the newspapers did an enormous business and had to increase the number of their pages. Men who in normal times were cold-shouldered in business circles, were able in those uncritical days to cut a great dash, and when, on the 17th of October, 1845, *The Times* warned its readers that among the directors of the new railway companies "there were some most notorious scamps, alias swindlers, who never possessed a penny in the world, and never could or would have possessed one, save what might arise from infamous designs," and made it quite clear that it was just as impossible to construct the nine or ten thousand miles of new projects on a paying basis as it was to raise the three or four hundred millions which it would cost to build them,

[1] The stag applies for an allotment of shares not to hold as a shareholder, but solely with a view to selling immediately at a profit.

the paper was penalized by receiving no more advertisements from the financiers who felt that the cap fitted them. The Bank of England came in for a good deal of bitter criticism, and was told that it had with a high hand destroyed commercially important financial plans when, in order to protect its reserves it repeatedly raised its rate, finally on the 25th of October, 1847, fixing it at 8 per cent.

Now the promoters found themselves in an exceedingly difficult position. With such a high bank rate they were unable to issue any bonds; it was not possible to issue any at 6 per cent, as owing to the Usury Laws which were then still in operation, loans on mortgage of real property could be issued only at a maximum rate of 5 per cent, which nobody would have bought, as Consols, which in 1845 had gone up to par, had during the crisis dropped to 79, and so yielded over 4 per cent. The dismissal of workmen by contractors who were no longer in a position to go on with their schemes was the next problem, and those groups had cause for rejoicing who received from outsiders accommodation up to 30 and 40 per cent on the deposit of their scrip. The London & Southampton Railway was compelled, in order to raise further money for its construction, to sell its shares at 50 per cent, and Stock Exchange wits, irrepressible even when times were bad, translated the M.S.L. of the Manchester, Sheffield & Lincolnshire (now merged in the L.M.S. via the Great Central) as Money Sunk and Lost. Those companies were best off which were backed by wealthy merchants and industrials who hoped for orders, although they, as also the promoters, were far more concerned with immediate rapid construction than with future dividends.

When the question of building railways arose, the want of foresight on the part of the bankers, so disastrous in its consequences, appeared for the first, but by no means for the last, time in modern financial history. As J. H. Balfour Browne so incisively put it, "English people are always unprepared either for the advent of war or for the progress of the triumphs of peace." When tramways were to be

constructed, when electricity was to be exploited first for lighting, then for power, we again find the same unfortunate hesitation, followed at the worst possible moment by a plunge. As late as 1850, when their infantile diseases had long been outgrown and more than ten thousand miles of rails traversed the face of the land, the question was still gravely discussed in most bank parlours whether it might not involve too great a risk even to make advances on the security of railway stocks. From about the early 'nineties the same shares were consistently recommended to cautious investors, the name Home Rails being spoken with almost the same respectful awe as the word Consols—and at that time optimism was out of place. Only a country as wealthy and as financially sound as England could and can afford to let its financial leaders fall into such financial errors without running the very gravest risks of permanent harm.

The motive power which caused the English railways to spring up with such amazing rapidity was supplied, as in the early days of banking, not by the keen speculative mind of the City, but by the intelligence of local men of business and by local patriotism. Once more the Quakers, ever-persevering, never discouraged, were the pioneers of progress; the application for the construction of the first railway in England, the Stockton-Darlington line, was in the first instance backed by Edward Pease, the Quaker-philanthropist, who is entitled to share with Stephenson the credit of having been the first to employ steam power for transport (and who incidentally was the founder of the Peace Society). William Rathbone, the son of a merchant, Mayor of Liverpool in 1837, and James Cropper, of Cropper, Benson & Co., a director of the Liverpool and Manchester Railway, whose exertions in the cause of the abolition of slavery led him to a difference of opinion with Sir John Gladstone which was fought out in public, were likewise Quakers; Henry Booth, a corn merchant, was the inventor of many mechanical contrivances still in use on the railways.

All were far-sighted, capable business men who had combined in a group, the Liverpool Party, and refused to be discouraged by any amount of setbacks. They built and controlled the Birmingham & Derby Junction, the Midland Counties and the North Midland, and it is characteristic of the railway policy of the early days that in many places these lines were in keen competition with each other, but that nevertheless the Liverpool men would not hear of amalgamation. It required very strong pressure on the part of Hudson for the Midland Railway to come into being in 1843 with himself as the first chairman, and it is again significant that it was not till 1868, when St. Pancras Station was opened, that the line gained access to London. Hudson himself, the great George Hudson who came to such a grievous end, was in his early days likewise a local power—at York. The Great Western, financed mainly by Birmingham, Manchester and Liverpool, was "almost a municipal affair," and the shareholders of the London and Birmingham were all Lancashire men. London did not join in the fray till 1848, but then made up for the delay by throwing itself into it heart and soul.

Until then Lombard Street had no doubt kept the current accounts of the railway companies, but the old-established banks refused to take part in either their promotion or their management. Even an enterprising financier like Nathan Rothschild was suspicious, and watched the development with interest, perhaps, but from afar; he would not have any dealings with matters which other intelligent men, such as the Barings and the Ricardos, considered foolish. When he recognized his mistake, the cream had been skimmed off in England, and picking up other people's leavings did not appeal to the Titan of New Court, in addition to which, the Continent offered an extensive and almost entirely untilled field. James, in Paris, and Solomon, in Vienna, gladly and actively bestirred themselves when the London brother gave them a hint. French and Austrian experts studied English methods of construction, and the experience

already gained was applied in all future Rothschild railway promotions when in Austria first the Galician Railways and then the Northern Railway were built; the same name (Chemin de Fer du Nord) was given to the greatest system they constructed in France. The Lombardo-Venetian Railway also was a Rothschild undertaking, with headquarters in Paris, and its concessionaires being the Englishmen Anthony de Rothschild, Samuel Laing, Edward Blount and Mathew Uzielli (of Devaux & Co., Foreign Bankers). This company, whose shares represented for half a century one of the most speculative securities on all the Exchanges of Europe, grew to be a child of sorrow of international finance; the rights of the bondholders became so tangled that only an expert could find his way about among them, and finally the Lombardo-Venetian Railway Problem strongly resembled the Schleswig-Holstein Question, of which Palmerston once remarked that but three men really understood it, of whom one was dead, the second in a madhouse, and the third (himself) had forgotten all about it.

It is not particularly surprising that, where financial experience was lacking the inexperienced flung themselves with all their might at the new invention, and greatly to the disadvantage of commerce in general and of the railways in particular, a new class of bankers arose, the railway bankers. Between January and November, 1836, forty-two joint-stock banks were formed, scarcely any of which were intended for banking, but were constituted for the purpose of the selling to a good-natured and guileless public, of shares in commercial ventures of the most wild-cat kind, especially in railway companies. Much more serious, however, was the fact that thirty of these new finance houses had the right to issue their own notes, and they availed themselves of the privilege to such an extent that they managed to increase the currency of the country in a most alarming manner. They did not enjoy a long life, and before they were able to do too much mischief a run put an end to their wild doings.

That it is possible, however, to combine caution and good repute with financial participation in railway undertakings was proved by

GLYN, MILLS & CO.

The banking house had been founded by Sir Richard Glyn in 1753 under the name of Vere, Glyn & Hallifax; originally a dry-salter ("oylman") in Hatton Gardens, he became in 1758 Lord Mayor of London and first Baronet of Ewell, and—a sufficiently rare occurrence—his son Richard (first Baronet of Gaunts) was likewise (in 1798) elected by his fellow-citizens to this highest civic honour. The Glyn of the third generation, George Carr Glyn, the son of the second Sir Richard, was not satisfied with treading the perhaps highly respectable but somewhat well-worn paths of high-class tradition; aware that unless he was willing to perish in the rut of dull routine, the old established business must be led into the way of new and profitable undertakings, he overcame the prejudice and the opposition of Lombard Street, and in 1837 joined the Board of the London and Birmingham Railway as its first Chairman.[1] The charmed circle had been broken, and Glyn, Mills became one of the greatest bankers of railways.

Nothing could more effectively dispel the objections of the serious investors to the new ventures than that such a great authority should take a commercial interest in them, and again and again point to the immense benefit for the whole of the community that "the operation of railway companies, by freeing an enormous amount of capital that was locked up in warehouses, shops, counting-houses, has done more to release the capital of the country than anything that has taken place for years." Glyn took part in the foundation and constitution of the Railway Clearing House formed on the model of the (Cheque) Clearing House in Lombard Street. Not he and not George Hudson, however,

[1] L. H. Jenks in "The Migration of English Capital to 1875" (1927) expresses the opinion that it was pressure of circumstances which induced him to take this step, but it is impossible to find any proof for this.

but James Morrison,[1] the draper, first formulated the so obvious and hence so brilliant idea, the primary object of which was to facilitate the transfer of carriages and trucks from one system to another,—a scheme still in use to-day. As far back as 1848 negotiations took place under Glyn's auspices to stop senseless competition; he would have liked to carry through a great amalgamation between the Great Western (of whose Board his partner, Edward Wheler Mills, was a member), the North Western (to which he belonged himself), and the South Western, but nothing came of it at the time, and to this day, in spite of the vast mergers which have been effected since, the South Western (now part of the Southern) and Great Western are in competition at certain places.

As a politician pure and simple George Carr Glyn, who entered Parliament in 1847, did not come into much prominence, but in connection with his two main subjects, banking and railways, his name is seen on almost every Commission. Of his many wise sayings perhaps the most interesting and that shedding most light on the tangled position of the railways is the one dating from 1844, "if a new start were being made I would be for a State system." He was a personal friend of Gladstone, who often consulted him during his terms as Chancellor of the Exchequer, and it was on that statesman's recommendation that Glyn was, in 1869, raised to the Peerage as Lord Wolverton.

Glyn, Mills & Co., registered in 1885 as a private joint-stock company with unlimited liability, inherited not only their own great traditions, but also those of the firms which in the course of time became associated with them; in

[1] From very humble beginnings, James Morrison rose in the course of a life which was blessed with both good luck and intelligence, to a high position, and acquired an enormous fortune. "Small profits and quick returns" was the principle on which he managed his drapery business, and when he died, in 1857, he left, in addition to large investments in America, property in England to the value of between three and four million. From 1830 when he entered Parliament, he exercised the greatest possible influence on railway legislation. Esteemed on all sides for his "industry, sagacity and integrity," he was appointed Chairman of the commission set up to inquire into Hudson's financial methods.—It was James Morrison who first advocated in pamphlets the idea that arrangements would have to be made to render it unnecessary for goods or passengers to be transferred at junctions.

1864 they absorbed Currie & Co.[1] (founded in 1773), who themselves had united with Dorrien & Co. (dating from 1770). Holt & Co. (formed in 1809)—great army bankers and agents—joined the concern in 1923 and Glyn, Mills & Co., a hundred and seventy years after their formation, opened (at Kirkland House in Whitehall, Holt's former office) their first branch. A year later, when the eighth Earl of Jersey died, his bank was taken over from his executors, and Glyn's thus acquired a firm whose history is among the most brilliant of all banking houses, whose origin can be traced back to 1559, and which from 1782 to 1923 kept unchanged the same great name—Child & Co. The family occupied a leading position both in the City and in Mayfair, its best known representative during the last century being Lady Jersey, the daughter of the tenth Earl of Westmorland and of Sarah Anne, daughter of Robert Child. As head of Child's Bank she was possessed of a very large fortune, was a remarkable woman, famous for her courage and coolness, a European personage to whom every visitor to London, be he crowned head or representative of royalty, paid his respects; she was ably seconded by her husband, the fifth Earl, who in manners and appearance was le plus grand seigneur of his day.

At a very early date the dealings of Glyn's Bank were widespread far beyond the boundaries of this country; it was a very influential member of the group which together with the Ottoman Bank—on whose board as on those of the Bank of Roumania and the Union Bank of Australia[2] they are represented to this day—financed Turkey. Together with Bischoffsheim & Goldschmidt they were interested in the London & Brazilian Bank (absorbed in 1933 by the London & River Plate Bank which then called itself the Bank of London & South America), with Baron Reuter, Schroeders, and Sassoons in the Imperial Bank of Persia[3]

[1] Lord Currie, the diplomatist, and his brother Bertram Wodehouse Currie, one of the most capable bankers of his age, are the great-grandsons of the first banker Currie, William Currie.

[2] See page 65/6. [3] See page 401.

(since 1935 the Imperial Bank of Iran) and in Egyptian flotations. As early as 1868 the Foreign & Colonial Government Trust was formed, a model for many successors. The wealthier middle-classes had till then been overwhelmingly of the opinion that all money invested outside the pale of Government securities was embarked in speculation; would-be investors might know that there were good investments to be had, but they distrusted their own judgment. "To give the investor of moderate means the same advantages as the large capitalist in diminishing the risk of investing in Foreign and Colonial Stock," to invest by proxy on the soundest principles—George Wodehouse Currie was one of the trustees—was made possible through this Trust.

It is just a century since George Carr Glyn took the step which turned out to be of such importance for his bank and for finance generally: he introduced railways into Society; and in this detail also the tradition of the first banker of railways is still maintained by the presence of some of the partners on the Board of the Southern Railway and the London, Midland & Scottish Railway.

It does not often happen that for six generations without a break a family takes part in the management of a business inherited from its ancestors; in the house of Glyn, Mills (Currie) & Co. this rarity has occurred twice, once on the Currie and once on the Glyn side.

WAYS AND MEANS

GEORGE HUDSON—CONTINENTAL RAILWAYS—BETHEL HENRY STROUSBERG—THE ROUMANIAN RAILWAYS—EDUARD LASKER AND THE CRASH (GRUENDERKRACH)

To include George Hudson among the financiers would be an over-estimate; to put him out of hand into the same category as Jabez Balfour, Horatio Bottomley or Whitaker Wright would be more than an under-estimate—it would be an injustice. Hudson represents a border case, and he must be accorded a niche of his own in the financial history of his country because, however great his deficiencies may have been, yet in the long run he gave an enormous impetus to the development of railways in England—far greater than that of Strousberg, in Germany—and in an exceedingly short space of time changed its railway map. It may greatly be questioned whether he was the right man in the right place, but he definitely came at the right moment. The engineers and contractors who also managed the financial affairs of the first railways—were indeed compelled to do so as the professional financiers were conspicuous by their absence—did not possess, nor was it their business to possess, any financial and business skill. But Hudson had a gift for administration and organization and managed his companies on business lines—in short, he knew his job. If instead of the commission-hunting yesmen who formed his colleagues, he had had the support of a board of capable men conscious of their responsibility, who would have guided his abilities in the right direction and applied a curbing brake to his overwhelming self-confidence, he would

have died great and rich. But as at the decisive moment he failed to realize the limitations of his powers, he was ruined, and ruined thousands of shareholders. Definitely not the thorough-paced swindler he is generally represented to have been, yet he certainly made use of tricks which ran very close to the line.

That this man who aroused the interest of his contemporaries to such an extraordinary extent that he became known by a vast number of nicknames—"railway king," "Napoleon of railway"—that Carlyle called him a "big swollen gambler," that Dickens took him in part for his model of Merdle[1] in Little Dorrit, does not stand out as a very clearly defined character in history is scarcely surprising. But that his biography, the main facts of which could easily be ascertained from documents and dates, should be told with so many variations, is more surprising. And yet everything happened naturally, we might almost say in logical sequence.

Hudson started life in the paternal drapery business; at the age of seven and twenty he unexpectedly inherited thirty thousand pounds from a very distant relative, but as even before this he was quite well-to-do, there is no need to repeat the many Dick Whittington anecdotes of his sudden wealth, and still less ground is there for the tales subsequently circulated by his enemies that there was something fishy about this inheritance. We are further told that he invested the windfall in shares of the North Midland and so laid the foundation for his subsequent majority holding—an altogether impossible embellishment, as the North Midland was not incorporated till 1836.

On the other hand it is true that in 1833 he was managing a bank in addition to his drapery business (the York Banking Co.), and that in 1837 (and again in 1846) he was elected

[1] The character of Merdle owes even more to John Sadleir. This director of the Tipperary and chairman of the London & County Joint-Stock Bank, M.P. and Junior Lord of the Treasury, participated in great financial schemes and was manager of the Grand Junction Canal and the East Coast Line, ended his great career as a forger and swindler, and committed suicide when his house of cards collapsed.

Lord Mayor of York. This was the start of his great career. Very early he recognized that the many small railway systems, however well they might be managed, could never become paying propositions, and that competition—for instance in 1842 Derby was served by three lines—must be cut out; quite consistently he bought up shares on a large scale with the object of an amalgamation of all the companies. Consequently the greatest merger yet effected was carried through in 1844—the Midland Railway, with Hudson as Chairman. From that date till 1849, in all not more than a short five years, he held a position of enormous power; George Hudson (—Merle) "was a Midas without ears. . . ." He was in everything good, from banking to building. He was in Parliament; of course . . . he was Chairman of this, Trustee of that, President of the other." The Newcastle & Darlington, Newcastle & Berwick, York & North Midland, Leeds & Bradford and Eastern Counties lines all came under his sole management, altogether not less than 1,016 miles. Much to the displeasure of patrician exclusiveness, he had acquired a firm footing in Society, and, when Conservative M.P. for Sunderland, achieved the feat of being elected to the Carlton Club; not even his collapse did anything to break off this latter connection, for he remained a member till 1871, shortly before his death.

He was not strong enough, however, to prevent the carrying through of the Great Northern scheme—London & York Railway Company was its first more modest name; this made it impossible for him to realize his great amalgamation plan, for the Great Northern cut the Eastern Counties off from the Midland system. This was the beginning of his downfall. The Commission of Inquiry which met in 1849 under the Chairmanship of James Morrison revealed the air of petty and not even novel means whereby the great man had been able to secure the faithfulness of a generally so fickle crowd of shareholders—he had used the proceeds of a new issue of stock to pay for the old, and had thus paid dividends

which had not been earned. He had also become personally indebted to his companies to more than half a million sterling, which he had used to purchase shares on the Stock Exchange in order to keep their quotations at a level which would not cause uneasiness. Only the successful man will be forgiven such methods, and Hudson was not successful. The only really serious thing that could be proved against him was that in his private capacity he had bought iron rails at £6 10s. per ton and as chairman had resold them to his companies at £12 per ton. Yet even this sin against the canons of high class finance was not enough to bring him before the Courts, although there were many who would have liked to see him there; in fact, the only time he was sentenced (to nine months' imprisonment) was very much later, in 1865, for contempt of Court because he had not paid a debt for which judgment had been given against him.

Immediately after his collapse he tried from his place in Parliament to bring forward some plea of justification, but his words were received in stony silence; at the meetings of his companies there were similar scenes—he was a broken man. He resigned his railway appointments at once, but his career was not yet closed; he remained in Parliament till 1859, and as he could no longer take an active part in railway affairs, he speculated—successfully in fact—in railway shares; he behaved very well, for to the best of his abilities he made payments in respect of sums which he had been found to have misappropriated. Then his affairs took a turn for the worse, and in 1854 he was compelled, by painfully straitened circumstances, to withdraw to Calais, where his main occupation consisted in watching for the arrival of the Dover boat. He no longer had the energy to pull himself together, and in 1868 a few friends who had remained faithful collected a sum of £4.800 with which they bought him an annuity.

He did not long enjoy it; three years later he died—poor and discredited.

Conditions on the Continent, and hence also the development of railways, were fundamentally different. France never had such wretched main roads as were seen in this country until about the middle of the eighteenth century; that period was the starting point of an almost revolutionary improvement in England. A well laid out canal system carried goods cheaply from the place of production to the consumer, perfectly level highways were built on which mail coaches travelled which "everywhere on the Continent would be taken for a princely equipage"; down to 1841 to Brighton, till 1842 to Glasgow and Edinburgh, and when in 1843 the last London to Southampton coach started on its journey, a colourful and magnificent chapter in English history was closed—Merry Old England was dead, and "there is no doubt whatever about that."

Neither in France nor Germany, and certainly not in Austria, was there a traffic which could even remotely compare with the English as regards speed, reliability and comfort. In Prussia, especially, the main roads were definitely bad until 1800—East Prussia had hardly any as late as the end of the 'twenties—and not till the beginning of the nineteenth century was a start made with the construction of properly made roads. There was no such urgent need for them, of course, for even down to 1871 Germany had still an overwhelmingly rural population,[1] the country was not commercialised like England, and therefore the first railway could well delay its appearance till 1835, when a line connected the two Bavarian towns of Nuremberg and Fuerth—a total distance of three and three quarter miles. Progress was so extraordinarily slow that by 1842 only railways of local importance between large towns short distances apart were constructed—87 miles all together! Thirteen years later, in 1855, only 4,870 miles had been opened for traffic, so that the annual increase for the twenty years amounted to roughly only 243 miles. At this time

[1] In 1816 in Germany 73·5 per cent of the population lived on the land, in 1852, 71·5 and in 1871, 63·9 per cent. By 1910 the converse was the case: 60 per cent were industrialised, and only 40 per cent made their living by agriculture.

(1852) France had 2,300 miles of rail over a number of detached lines, whilst in England (by 1850) 6,600 miles had been constructed. In Austria progress had been so slow that in 1871 only 977 miles were in operation, and in Hungary a paltry 586 miles. The first system to cover the whole of the country (by 1848) was the Belgian.

But now, towards 1854, German bankers—first the Darmstaedter Bank, then the Disconto Gesellschaft (this latter acting partly for the Rothschild Group) and from 1856 on the newly-constituted Berliner Handels-Gesellschaft, took a hand in the matter. Amongst private firms the first to join in the fray were Sal. Oppenheim Jun. & Co., of Cologne, and Schroeder Gebrueder, of Hamburg. They financed new schemes on a considerable scale, and there is no doubt that great credit is due to them; as a result, by 1865 the mileage had been doubled.

The first in Germany to advocate the systematic construction of railways and to see clearly that the lines must connect great industrial districts and that a network which only leads from one town to another cannot possibly pay in the long run, was Friedrich List; he wanted to see a German railway system before there was a Germany, and as he was so much over the heads of his contemporaries, who were unable to understand him, he shot himself in 1846.

It is a curious thing that in all countries railways seem to have exercised a mysterious fascination for the financial amateur, and for the next inferior species. There is no branch of business (except perhaps mining) where swindling on a major and a minor scale has raged more furiously, and so it came about that the strongest impetus to the opening up of new railway lines in Germany and in Eastern Europe was given by a man like Strousberg. He was not a financier, but a contractor and financier in one; entirely different, however, from Brassey, who always remained reliable and never tried to make money by doubtful means, Strousberg used inferior materials, enriched himself where and how he could, was a daring speculator, and yet in spite

of all these drawbacks he has done more for the building of new railways on the Continent than several boards of reputable bankers put together.

Bethel Henry Strousberg was born in 1823, in East Prussia (his father's name is said to have been Strausberg); as a young man he came to London, contributed there to various trade journals, and started his real career when he returned to Germany in 1855, having meanwhile acquired British nationality. At first as agent for English principals, then, when he had collected sufficient means, on his own account, he founded railway companies such as he had seen in his adopted country, first in Prussia and subsequently in Hungary. The East Prussian Southern Railway, the Tilsit-Insterburg, the Berlin-Goerlitz and many others came into being, and eventually he had a system of 400 miles under his management. But this expansion, truly enormous for a single individual, did not satisfy him; first he bought locomotive works and rolling mills for rails (which, after all, had a close connection with his railway schemes), but subsequently mines and collieries were added to an undertaking which had already grown too vast and extensive for his control. As a very wealthy man and one of the greatest landed proprietors, he had extraordinary influence with the Government and in Society.[1] But at the height of his success in 1868 one single venture—entered into without proper consideration, in the hope of a gigantic profit, and badly managed—sufficed to bring his vast edifice tumbling about his ears.

In December, 1868, Strousberg offered a 7½ per cent Roumanian Railway Loan at 71 per cent, the proceeds of which were to be used to build about 560 miles of line. The prospectus included the words, "absolute guarantee of immediate interest"—a misleading phrase to say the least! It was true that Roumania had given a guarantee,

[1] By a curious coincidence the Palace which Strousberg built himself in the Wilhelmstrasse in Berlin to-day houses the British Embassy, and the house in which Hudson lived in the days of his glory, at Albert Gate, Knightsbridge, is the home of the French Embassy.

but under the agreement this was not to be enforceable until a considerable part of the line should be completed and opened for traffic. Pending that happy day, Strousberg had secured the assistance of leading members of the German aristocracy to whom he had assigned a share of the concession; they were the Duke Hugo of Ujest, the Duke Victor of Ratibor and Count C. Lehndorff. The *Frankfurter Zeitung* was fully justified when it at once pointed out that the loan lacked everything that was required in an investment: confidence in the contractor, the safety of the property mortgaged, and the solvency of the guarantors. In spite of all this, 210 million Marks (£10,500,000 at par) had been issued by 1870 of a loan which would have borne interest at 10½ per cent if everything had gone well. But things went far from well: in a country which was still half wild, it was necessary first to build roads in order to transport the material for the railway; enormous sums unprovided for in any calculation were spent; building came to a standstill; and as it was impossible to keep to the dates fixed for the work, the Roumanian Government in 1871 cancelled the concession. The value of the bonds issued now depended solely on the ability of the guarantors to meet their liabilities. Never in their wildest moments had it occurred to them that they might ever be called upon; their intention from the very first had been merely to make a profit from the concession, and it is more than doubtful whether, if the worst had come to the worst, they would have been able by any means to raise the sum required. There was the promise of a very nasty scandal.

It was impossible, nor did anyone desire, to let down the princely personages who had been drawn into the maelstrom, for all of them held high positions in the Government and at Court, so for this reason, and not for the sake of the injured bondholders, Bismarck induced Bleichroeder, the banker, and Adolf Hansemann, the manager of the Disconto-Gesellschaft, to use their efficient hands in unwinding the

tangle. An arrangement was come to with Roumania and with the bondholders, and when the troublesome settlement had been carried through, Bleichroeder and Hansemann were ennobled.

The very versatile Strousberg was able to some extent to recover from the heavy blow, but his ventures grew wilder and wilder. In Russia he came into conflict with the law, and was arrested in Moscow in 1875. When bankruptcy proceedings were begun against him in Germany, Austria and Russia, the fate of the man was sealed. He, who for fifteen years had occupied so enviable a position in finance, returned to Berlin in rags like any beggar.

Strousberg's collapse had extraordinary commercial and political consequences. Panic seized the banks, and when Deputy Eduard Lasker, in a speech on 9th February, 1873, pointed out the enormous speculative dangers of the promotions of the years following a victorious war, this was the signal for a Stock Exchange crash. Lasker bitterly accused the former railway magnate and his aristocratic associates, proved that corruption had invaded the highest circles, and that even greatly respected houses had become miniature Strousbergs. "To-day," he exclaimed, "the dividing line between legitimate and illegitimate profit has become so blurred that throughout the country promoters of every class are looked upon as tarred with the same brush," and in unambiguous language he expressed the view that when dilettanti turn financiers "they do as a rule far more mischief than the professional swindlers." For those days in Germany enormous courage was required to point out so clearly wrong doing in the highest circles; but while Lasker's intervention aroused the greatest admiration, those who were hit by the crisis held him responsible, and put all the blame on him. But the speech, one of the strongest ever held in the German Parliament, made history, and contributed largely to the change of public opinion in favour of nationalization of railways. Long ago Bismarck

had desired this, which would have been carried through if Bavaria had not always been so anxious not to abate one tittle of her independence. Now the road had become freer, and one private railway after another passed into the hands of the State. Following the example of the Post Office, railways became the civil section of the Army.

FRANCE

WILLIAM I OF THE NETHERLANDS—SWISS BANKERS IN PARIS

TILL well into the nineteenth century industrial development in France proceeded at a very slow pace, and as late as 1851 three quarters of the population were engaged in agriculture (by 1911 the percentage still stood at 55.9). This late appearance of any spirit of enterprise, the slow transformation of the country into an industrialized State, is the more surprising because from the days of the great Revolution, that is to say much earlier than in any other country, the road had been opened to private initiative. Not till very late then did modern business methods come into use. Cheques were looked upon with disfavour until the middle of the century, and even after 1848, when they began to come into favour, this means of payment was not too frequently employed; ready coin, on the other hand, but not bank notes, had a greater circulation in France than in any other country.

Until 1867 the formation of a Société Anonyme required the sanction of the local Prefect, but it was not often that his approval was applied for. In Belgium, which as regards railway construction also soon overtook its great neighbour, things began to move earlier, and by about 1867 the limited liability company had long been a popular business method. The Société Générale pour favoriser l'Industrie Nationale (known since 1903 by the shorter title of Société Générale de Belgique) was formed as far back as 1822, when Belgium was still part of Holland (as it was till 1830) and although the Articles of Association do not expressly so provide, yet

its actual task was "to get all Belgian industry into its grip." This most versatile bank that ever existed—as a Government and Note-issuing Bank and Deposit Bank, it financed and floated companies and issued their shares,—this first crédit mobilier, had been formed thirty years before Pereire constituted *the* Crédit Mobilier:[1] it has now become one of the greatest investment companies in the world, about three thousand five hundred industrial undertakings being associated with it. William I, the great-grandfather of the present Queen of the Netherlands, was its real founder, and remained the largest shareholder in the bank which Emile Vandervelde so aptly called "a man of straw—an umbrella for the royal speculations"; this very experienced King in fact—and the gift for brilliant financial management has been transmitted in the House of Orange-Nassau to this day—leads the modern rank of the Royal financial promoters.

The France of the eighteen 'twenties would have had no use for such a bank, nor were there enough undertakings in existence in which it could have taken a financial interest. People were modest, cautious, and—a great characteristic of thrift—very suspicious. The saving instinct, together with possibilities of saving, was strongly developed, and markedly stable conditions ruled in this well-to-do country not in fact thoroughly aware of its great resources. The supply of and demand for money in France were so steady that during the greater part of the nineteenth century, and even down to the outbreak of the world war, the discount rate varied much less than the English and was appreciably lower.[2] The small shopkeepers and all-powerful *Rentier*

[1] According to its balance sheet as at 1st April, 1934, the Société Générale de Belgique owned 835,797,163 francs worth of shares in various companies, and its participation in syndicates was 113,037,122 francs. The share capital was 1 milliard, and the reserve amounted to the same figure.—To conform with the new Belgian Banking Laws of 1934, the deposit and banking business has now been transferred to the Banque de la Société Générale de Belgique.

[2] During the period from the 5th of March, 1874, when the indemnity payable to Germany was settled, down to the 30th of July, 1914, the outbreak of the world war—that is to say forty years, the Banque de France changed its rate 38 times, the lowest being 2 per cent, the highest 4½ per cent (from 1883 to 1887 it remained absolutely steady). During the same time the Bank of England made 247 alterations, varying between 2 per cent and 7 per cent, and the longest interval without change was not four, but two and a half years.

class could only very gradually be induced to entrust their money to Savings Banks, and the *bas de laine* was still considered the safest repository. Because there was no real demand for it, the development of the banking system was very slow, and in addition was retarded by the many political upheavals which shook the country; in consequence of which its "early days" lasted more than a hundred and thirty years, from 1716, when Law floated his bubble bank, first called Banque Générale, then Banque Royale, till 1848 when after absorbing the last six provincial note-issuing banks, the Banque de France possessed the complete monopoly of issuing notes, and the Comptoir National was founded. After that time development proceeded at a more rapid, perhaps even a too speedy, rate; new kinds of banks were formed which served as patterns for Europe and the whole world. Previous to this, however, the history of French banking is merely that of the Banque de France established in 1800.

Swiss bankers[1] enjoyed a first-rate reputation in France. Jacques Necker, although later a sad failure as Finance Minister, introduced them to fame, as he himself owes much of his renown to his daughter, Germaine, Madame de Stael. The Mallets migrated from the Swiss Confederation to Paris in 1723, the Hottinguers about 1790, and they were joined in 1823 by Henrotte & Muller and in 1834 by Lehideux & Co. Likewise of Swiss origin was Perregaux.

[1] See Appendix page 394.

JEAN-FRÉDÉRIC PERREGAUX

THE BANK OF FRANCE

ALTHOUGH for thirty years one of the leading men in French finance and "one of the most mysterious personalities of a period fruitful in exceptional characters," the name of Perregaux has sunk into almost complete oblivion. The task of writing a full-dress biography offers many attractions, but within the narrow scope of this book only a short sketch of his life is possible, and his interesting relations with England cannot be more than briefly hinted at.

Born at Neuchâtel, he learnt banking in Mulhouse, Holland and London, then went to Paris, where he settled down in 1765. His affairs prospered rapidly; of an entirely different type from his professional colleague Ouvrard, Perregaux was an elegant and well educated gentleman, and "tout Paris"—diplomacy, science and society—which frequented his artistically furnished house, formed at the same time his clientele with whom he kept up a shrewd correspondence and whom he was always willing to assist. He had a special liking for the theatre, and still more for the ladies who graced its boards. Marie Madeleine Guimard, of the Grande Opera, and Madame de Vestris, both dancers, Françoise Raucourt, the tragedy actress, were intimate friends at home and ever-ready borrowers from the bank. Theroigne de Mericourt, the intelligent, often eccentric and sometimes ridiculous "Amazon of Liberty," "Belle of Liège," "Heroine of the Revolution," in turn dancer, politician, fighter for woman's rights, and always the courtesan, maintained down to her horrible end a constant

interchange of ideas with the man who again and again helped her out of difficulties.

With England Perregaux was connected by varied business and personal ties; with the Duchess of Devonshire, the beautiful Georgiana (whose debit balance at Coutts's was not wiped out till after her death), he exchanged numerous letters; Henry Swinburne, the traveller, has many things to report of the people he met when visiting the financier, and with the Foreign Office he had a somewhat mysterious connection which was not broken off even after 1789, for his bank was the only one which during the Revolution was able to maintain its relations with other countries. For a time he was "banquier du Comité de Salut," a slightly enigmatic title which, however, saved neither him nor his partner, Gumpolzhaimer, from imprisonment and risk of worse; how he managed to escape the guillotine, on one occasion only by the skin of his teeth, no one knew but himself.

After things had calmed down and the *salons* were opened again, we meet Perregaux in the houses of Madame Tallien, the *chére amie* of Ouvrard, of Madame Récamier, and of Josephine Beauharnais with the ever-empty pocket—a set which thoroughly understood the art of having a good time as defined by a moral code which would give rise to much thought even in our more enlightened days. Madame Perregaux—incidentally—does not seem to have occupied a very important place in her husband's life, although she must have been an exceedingly charming and beautiful woman. Her portrait, by Madame Vigée-Lebrun—hangs in the Wallace Collection.

A very great deal, on the other hand, can be told of his daughter Hortense. Educated at the celebrated Girls' School of Madame Campan, she married at a very early age the handsome Marmont, Napoleon's A.D.C., and so became Duchesse de Raguse. The marriage was unhappy, and political reasons were in part responsible for the separation; Hortense, a god-daughter of the Queen, remained a

true and faithful Bonapartist, while Marmont betrayed his master and friend in the most shameful manner when in 1814 he entered the service of the Bourbons. The divorce cost a great deal of money, and when the paternal bank went into liquidation there were further heavy losses, but the intelligent and really grande dame was able to settle down in more modest circumstances; she died in 1855, at the ripe age of seventy-eight, mourned by a large circle of friends; her former husband had passed away three years before in Venice, avoided, despised and abused.

On one occasion Marmont was entrusted by Napoleon with a financial mission. In order to raise a loan in Holland he was to deposit the celebrated Regent Diamond and pledge the proceeds of timber-felling in France. In spite of this double cover the Amsterdam people did not like the prospective borrower. If, so they told Marmont, he had made the proposal on the instructions of his father-in-law, they might have been prepared to do business, but the suggestions of Napoleon's General they turned down.

Some time after this Marmont was in the painful position of having to apply for help in the settlement of his own financial affairs; he approached (in 1827) Solomon de Rothschild, and offered by way of security to pledge the annuity of fifty thousand francs granted to him by the Austrian Government; ostensibly this had been accorded him in exchange for a dotation he had received from Napoleon, but actually it was the price of his betrayal. When, however, the cautious Solomon approached Metternich, the information he received was not satisfactory; he was told that the Austrian annuity was not a first class security, as with a man like Marmont you never knew how soon he might again turn his coat.

Napoleon had no real understanding of finance, and financiers he despised. "He is a visionary, a banker," he remarked on occasion of one of them, "people of that kind must necessarily have limited views." Ouvrard he treated

in a most disgraceful manner, but for Perregaux he had respect; in 1799 he appointed him Senator—and knew very well why he did so; the Exchequer happened to be empty again, and it was important to keep such a man in a good temper in case any emergency should arise; and it was not long indeed before he had to call him in.

With the object of at least to some extent balancing the French finances, which had become utterly disorganized by the Revolution and the wars, and of bringing a little order into the immense field of note issue, Napoleon conceived the idea of establishing a national bank. It had become an urgent necessity, as the rate of interest was moving towards three per cent per month. Between two campaigns, in two or three edicts, he laid down the fundamental policy of the new bank, which was not to lend to the Government, but to help the Treasury in handling the taxes, to manage loans and industrial enterprises. Thirty thousand francs, not a very imposing amount, was contributed by him; Josephine and Hortense Beauharnais, Murat and the other Generals subscribed, or were compelled to subscribe, for shares. The work of constitution he left to the directors (called Régents), amongst whom were the bankers, Mallet Ainé, Récamier and Casimir-Pierre Perier. As first President he appointed Perregaux (1803).

In order to be able to make an immediate start, it was necessary to take over going concerns. The Caisse d'Escompte, formed in 1776, however, had not the slightest intention of committing suicide by amalgamation, and refused to give way even when, in order to compel its consent, it was presented with a large and deliberately collected parcel of its own notes for immediate redemption. Similar pressure was attempted a second time; contrary to all expectations the bank on each occasion promptly met its obligations. Napoleon therefore had recourse to that gentle means of persuasion ever at the disposal of dictators: he sent an armed force, not to carry on the business, but to close the premises. The taking over of the Caisse des Comptes

Courants, founded in 1796 after the days of the *assignats*, was a simpler affair, for Perregaux was a member of its board.

When the wealthy man retired from the management of his own bank in order to take up the new and honourable position, the existence of the house was assured by two excellent and efficient partners. Gumpolzhaimer had been his colleague right from the start, in fair weather and in foul. He belonged to a highly respected South German family which had settled in Regensburg where he was born. Landed in Paris after many wanderings, Johann Albrecht was converted into Jean-Albert. First clerk, then partner, he became a much esteemed man, and when he died his large fortune was inherited by his German relatives, the eldest of whom was the representative of the Duke of Oldenburg in the Reichstag at Regensburg. There is not much to say about his life, spent as it was completely in the shadow of Perregaux.

The second, much younger partner was Jacques Laffitte.

JACQUES LAFFITTE

LAFFITTE went to Perregaux as clerk at the age of twenty, became his partner fourteen years later (in 1800), and after the old gentleman—Gouverneur de la Banque de France, Membre du Sénat, Commandant de la Légion d'Honneur—had died and had with all due ceremony been interred in the Panthéon, he from 1808 on managed the banking business by himself. With a strong hand he intervened in the history and the financial development of his country, was during the most critical years (from 1814 to 1820) Governor of the Bank of France, and became a money power of the very highest rank. So high were the position and reputation he enjoyed that not until he had finally left the financial arena were the Paris Rothschilds able to make any real headway.

During the Hundred Days he and Ouvrard were among the men who financed Napoleon; alone and in partnership with the Barings and the Rothschilds he took a lively part in the issue of foreign loans after the long drawn out war, and with both he stood, in 1823, at the head of the Consortium formed to convert the French Loan from 5 to 3 per cent, a partnership during which two of the associates had every reason to be surprised at the extra turns of the Rothschilds which had by no means been foreseen in the agreement. When Ouvrard opposed the Consortium with all his might because Rothschild belonged to it, and proved a powerful and very successful bear, Baring's and Laffitte's positions became very precarious.

Greater than in the field of finance were Laffitte's activities as a statesman. In July, 1830, his house was the meeting-place of the malcontents, and his private chest provided the means to bring about the Revolution. When

matters came to a head, the dead Perregaux' former partner and Marmont, his son-in-law, who badly and ineffectively commanded Charles X's household troops, faced each other in sharply opposed camps, and it was Laffitte who made impossible the Republic-to-be when he induced the Duke of Orleans (Louis-Philippe) to accept the programme of the July Revolution.

In the first Cabinet of Louis-Philippe (August, 1830) Laffitte was Minister without Portfolio; in the second, in addition to the Premiership he also became Finance Minister. Very soon, however, he fell out with the King, who had disappointed his hopes of a really broad-minded Government. In the Chamber, which he re-entered as Deputy in 1831, he henceforth belonged to the Opposition. The more the Government departed from the principles of the July Revolution, the more openly and accusingly did Laffitte raise his voice. His great sorrow at the disillusionment he had experienced is expressed in the words, "I ask the forgiveness of God and the world for my share in the Revolution."

Taking up politics did not do his fortune or his business any good, and when he joined the Ministry at a most agitated period, the bank had to be wound up. His credit, already shaken, collapsed completely—the statesman ruined the financier.

The Rothschilds had not much use for him without his wealth, and Nathan spoke disparagingly of the man who had imagined that he could save the finances of France but was unable to preserve his own fortune; they had to swallow, however, the renaming of the Rue d'Artois, in which they both had their offices, as the Rue Laffitte.[1] In the débâcle his house was retrieved from sale by a grateful country, and a tablet affixed, "A Jacques Laffitte, Souscription Nationale 29 Juillet, 1830."[2]

[1] The name of this street has undergone many transformations; in 1770 it was called Rue d'Artois, in 1790 it was renamed after the Jesuit Father (Joseph) Cérutti; in 1814 it again became Rue d'Artois, and from 1830 on Rue Laffitte.

[2] The house was demolished when the Rue La Fayette was lengthened. Maisons-Laffitte (formerly called Maisons-sur-Seine) had to be sold and divided into lots. Château Lafitte, spelt differently, had no connection with the banker.

With the remnants of his fortune the sexagenarian Laffitte —il faut bien vivre—founded the Caisse Générale du Commerce et de l'Industrie. He had recognized that the new economic conditions required new forms of credit, and that a bank ought to aid industrial development. As long as he stood at its head the establishment did excellent business, but after his death, in 1844, the managers were not up to their task. The crisis which started from England in 1847, the railway bubble, which demolished so many banks all suffering from the weakness of having too many and too vast irons in the fire, and thus too many risks, also ruined Laffitte's Caisse Générale.

ENGLAND STEPS IN

THE FIRST FRENCH RAILWAYS—WILLIAM CHAPLIN—THOMAS BRASSEY—THE GENERAL CREDIT AND FINANCE COMPANY

THE country par excellence of the small investor was by no means willing to provide any money for railways: neither Paris nor the Provinces, not even the speculators were able to put their backs into it and make a start. The State had to hold out a helping hand and give guarantees to those who were willing to become shareholders, and the new idea met with so little appreciation that the *agents de change* definitely refused to handle the early shares. One short line, twenty-five miles long, connecting Strasbourg and Bale, was opened in 1836 at a time when England had nearly two thousand miles in operation; the Bill for the construction of seven big lines under the control of the State was defeated in 1838, and when in the early forties London was connected with the sea by four lines, France had only a few unimportant sections, such as the Paris-Versailles railway, completed in 1839, the Rive Droite which Emile Pereire, at the time still an engineer, had built for Rothschild.[1] A competing line, the Rive Gauche, had been financed by Benoît Fould, and both fought hard against each other; later on, under the Second Emperor, Pereire and Fould met under the flag of the Crédit Mobilier.

At the same time there was plenty of money available, from 1840 until the crisis of 1847 there was even an abundance; it was consequently cheap and lay idle, and France

[1] The greatest railway which James de Rothschild built in France, the Chemin de Fer du Nord, belongs to a somewhat later date; the concession was not granted till 1845.

could with the greatest ease have raised the necessary capital herself. But as matters stood development lagged sadly, until England stepped in.

This step marked a new departure in international financial relations. Englishmen, with Edward Blount at their head, acquired concessions, English constructors, Joseph Locke[1] amongst them, and English contractors, the chief among them Thomas Brassey, went to work, and when the lines were opened for traffic, engine drivers from England drove the first trains over the French railways. The interested observer can see to this day that they are English handiwork: in France, as in most other continental countries, the rule of the road is, to keep to the right; the trains, however, pass one another on the left as they do over here.

To establish a connecting link between London and Paris was the first intention of the Englishmen. The South Eastern had completed its line to Folkestone, and was ready to organize a boat service to Boulogne. The London and Southampton, the future South Western, had formed similar plans as regards Havre, which were most keenly backed by its Deputy-Chairman, William Chaplin,[2] of Chaplin & Horne, the largest coach and mail proprietors in London, which meant in the world. This great and able business man was not likely to let himself be pushed to the wall by the new competition; when it became evident that the age of coaches must sooner or later become a thing of the past, he did not, like so many of his colleagues, waste his energy in opposing a natural development, but threw all his influence and capital first into the new ventures in England, then into the French concerns connected with his railway system.

The Southampton-Havre scheme was appropriated by

[1] Joseph Locke, Robert Stephenson (George's son) and Isambard Brunel formed the triumvirate of great English railway engineers.

[2] William Chaplin, M.P., was originally a coachman, and in his financier days he had "retained the power of giving utterance to language more forcible than eloquent." His establishment "horsed" the greater part of the mail and stage coaches; 68 different routes were served by him; requiring 200 coaches and 1,200 horses. When Chaplin died, he left a fortune of half a million sterling.

Edward Blount, who started by acquiring a concession for a line from Paris to Rouen, then one for an extension from Rouen to Havre; Locke was the designer, Brassey the constructor.

The actual cost of construction was not what made railway building in France so expensive—enormous sums[1] were sunk in promotion, and the number of ever open hands to each of which something stuck before the work could even be begun, was legion. England, on the other hand, did marvellous business; a good half of whatever lines were opened in France down to about 1847 was built with English materials and English money, by English engineers and contractors.

The profession of railway contractor was not created by

THOMAS BRASSEY

but he raised it to eminence. His name meant business and a good turn-over in every kind of commodities, and even the simple tools—called fly-tools by the navvies, who were accustomed to heavier instruments—were imported from England. If possible he employed Englishmen and Irishmen, but in the construction of the Paris-Rouen line he united workmen from all over Europe in a common activity for the first time in history; no fewer than eleven languages were spoken—English, Erse, Gaelic, Welsh, French, German, Dutch, Italian, Spanish, Polish and Flemish—and the modern Babel provided the interested observer with ample material for his notes. At the start the French worker was inferior to his English colleague, but in time he caught up; the Germans had less endurance than the French. One thing, however, distinguished the English from all other nations—the complete silence in which they worked. "Mon Dieu! Les Anglais, comme ils travaillent!" was the astounded exclamation of a new French engineer accustomed to his men carrying on constant excited political discussions.

[1] The actual construction of the Bâle-Strasbourg line had cost no more than 27 millions, whilst the share capital of the company amounted to 40 million francs.

Brassey, the best type of the self-made and self-educated man, was a model employer; he was the first to whom it occurred that if a patron required hard work from his men, he ought to see also that they were properly fed.

His undertakings were so vast and so world-wide, that at times he had eighty thousand men in his employ; in addition to eight thousand miles of railway[1] he constructed the Victoria Docks, the Thames Embankment and the Northern Sewer in the main drainage of London.

To enable him to carry out his huge undertakings he required considerable financial means which, needless to say, had to be found by his principals; frequently, however, he wanted temporary or emergency credits, and in order to be on the safe side in such an eventuality, the contractor turned financier, became a sleeping partner in Edward Blount's Bank, in Paris, and one of the Directors of the General Credit & Finance Company of London.

The company was founded in 1863 on the lines of the Crédit Mobilier, for the purpose of business of all kinds, "to undertake all such operations as an intelligent and experienced capitalist might effect on his own account with a capital of millions." As happily it had the good fortune to form, in addition to that with Brassey, other high class connections, for instance with Samuel Laing, Edward Blount, Samuel Leo Schuster and Bischoffsheim & Goldschmidt in Paris, who brought it their business as well as with Schneider-Creusot and Henry Drummond Wolff, here met for the first time on the slippery soil of international finance, the question whether it was and in fact could be the business of a limited company to undertake all such operations as an "intelligent and experienced capitalist" can successfully carry out never became urgent. The

[1] Brassey constructed, amongst others, the Great Northern (1847–1851), the Canadian Grand Trunk (1852–1859), railways in the Crimea (1854), in Australia (1859–1863), in the Argentine (1864) and in India (1858–1865); altogether he was engaged in 170 different contracts.—Brassey's son—an authority on naval matters, for a time at the Admiralty, from 1895 to 1900 Governor of Victoria, and of *Sunbeam* fame,—was raised to the Peerage in 1886, and became an Earl in 1911. Lord Brassey's daughter is the present Lady Willingdon, who is both the daughter and the wife of a Lord Warden of the Cinque Ports.

company had a comparatively long life and in 1885 was merged in the Union Discount.

In spite of this double cover, in London and Paris, the crisis of 1866 put Brassey into the most serious difficulties, and he had no alternative but to request a loan from the bankers who for thirty years had been accustomed to examine and adjudicate upon railway schemes—Glyn Mills & Co. He was allowed thirty thousand pounds against the deposit of "some stuff," but when Brassey repaid the loan he had the great satisfaction of finding that Glyns had not even opened the box containing his securities.

Only thanks to his sound principles—he undertook nothing if he was not convinced that he could carry it through, and sold nothing that was not ready—was he one of the few contractors who did not come to grief in the Overend-Gurney crash.

EDWARD CHARLES BLOUNT

ALTHOUGH not, like Carr Glyn, banker of railways, yet Blount was the foremost of the railway bankers.

He belonged to an old, highly esteemed family of staunch Catholics, who were rightly proud of the fact that a ray of Shakespeare's genius had immortalized two of their ancestors, Sir Walter Blunt, the friend of the Black Prince (in *Henry IV*) and Sir James Blunt, the Knight Banneret (in *Richard III*). Edward Blount, the father of Edward Charles, Secretary of the Catholic Association, was, with Daniel O'Connell, in 1825 one of the founders and directors of the Provincial Bank of Ireland, whose original directors—Irish Catholics and Jews frequently met in the early part of the century in their common fight against the not yet repealed disabilities—included (Sir) Moses Montefiore; in opposition to the National Bank of Ireland[1] it was expressly established as a Catholic Bank. In its London office Edward learnt the first principles of his future profession, which Lord Granville advised him to leave as soon as possible and enter the Diplomatic Service, telling him that without a great deal of money at his back a young man had not much prospect of getting on in banking. So at the age of twenty Blount went, in 1829, as Attaché first to Paris and then to Rome, where as Consul he gained experiences which were to be of great assistance to him when, forty years later, in the besieged Paris, he found himself in an awkward fix. The small allowance he received from his father was eked out by contributions to the newly started *Railway Chronicle*.

[1] The Provincial Bank of Ireland survives unchanged to this day. The National Bank of Ireland in 1856 changed its name to National Bank. An O'Connell, James John, is on the board of the latter at the present time.

But diplomacy held no great appeal for him either; in 1831 he returned to banking, and joined Callaghan & Co. in Paris. One very important and at that time very high class customer—Wright Selby & Co., of 5 Henrietta Street, Covent Garden (extensive and varied were the destinies of the banks who occupied those premises)[1]—followed him. When, however, it came to a division of the profits arising from those dealings, dissensions seem to have broken out; in any event "the arrangement did not work satisfactorily." With the assistance of his father he was able to set up on his own account at 7 Rue Laffitte under the style of Blount Père & Fils; the bank prospered exceedingly, and was only wound up when a new partner came in, the nephew of the great man who had given his name to the street in which its premises were situated. Under the new style of Charles Laffitte,[2] Blount & Co., the bank for a time did brilliant business. Numerous members of the British aristocracy kept their Paris or Continental accounts there; in Lord Henry Vane, the future Duke of Cleveland, Blount had an excellent customer who was very helpful when difficult times supervened.

Not in banking pure and simple, however, did the strength of the house lie—it was merely a side-line. Blount recognized that, however the mentality of the French people might be constituted, yet the country would ere long have to have railways, and when in 1838 the Bill to construct seven big lines under the control of the State was defeated, the man who had received his early training in the City of London saw that the moment had come for private initiative to take a hand where Parliament was found wanting. Armand

[1] Wright, Selby & Co. failed in 1841, whereupon the Commercial Bank (established in 1840) opened a branch in the forsaken offices; it in turn stopped payment in 1861; its remaining assets passed into the hands of the Westminster, which, however, did not take over the once more empty premises in Henrietta Street. The London & County, in the hope of obtaining some of the old business, in 1862 opened a branch in the neighbourhood and, finding it successful, in 1864 took possession of the old offices. In 1909 the London & County was merged in the Westminster, and henceforth business was carried on at No. 34. No. 5 to-day houses a Branch of Barclays Bank.

[2] Charles Laffitte's daughter was the wife of the gallant knight-errant, General Gallifet, one of the Paris friends of King Edward VII.

Dufaure, who was at the head of the Ministry of Public works, was a man with whom it was a good deal more possible to talk, than with Thiers, who refused to take the new invention seriously, and was of the opinion that the Parisians might safely be given their toy, as anyway no traveller would be found willing to use it. Arago, the famous physicist and astronomer, who studied the matter from a serious scientific standpoint, had come to the final conclusion that during the passage through even the shortest tunnel a man would be asphyxiated. This wonderful far-sightedness hurt neither obstructor nor the cause: the astronomer became Minister of War in the Provisional Government of 1848, Thiers, the historian, was the first President of the Third Republic, and the railway was built. A contract was concluded, and on condition that the State found a similar amount, Blount undertook to raise six hundred thousand francs in France and the same sum in England. The appeal to financial circles met with a ready response; among those who took part in the venture were James de Rothschild and Jacques Laffitte, Lord Overstone and William Chaplin. In this way the first railway to be constructed on the English model in France came into being—the line from Paris to St. Germain; it was only twelve and a half miles long, but it was to become in 1855 the nucleus of the great Chemin de Fer de l'Ouest. Blount was elected chairman, and on the principle that "no one can gain power unless he thoroughly understands himself the practical details of the trade of the men he seeks to govern," the banker went to the London & North Western Railway, became in turn foreman and stoker, learned engine driving and acquired a complete knowledge of railway management.

The bank, on the other hand, which Blount and Laffitte had formed, did not prosper so greatly now; evil days had dawned, and in 1848, the year of the Revolution, it failed, but not one of the creditors lost so much as a penny, for subsequently Blount paid them all in full.

When the political horizon had cleared and the financial situation had calmed down, Blount's friends came to the conclusion that it would be a waste to let the abilities of a man lie fallow who had with such energy carried through so many great transactions, and convinced that, once he was in the saddle, he would be able to manage the steed, they helped him up. Very prudently they chose the form of a limited company, and in 1852 a fresh start was made. The contractor, Brassey, whom Blount had met in 1837, during the negotiations for the first French lines, and with whom he had since worked together a great deal, found most of the capital. The new combination worked exceedingly well; the safest projects of the contractors were offered to the bank for the purpose of finance, and it goes without saying that in the case of schemes which were submitted to Blount first, Brassey's tender was the lowest. Edward Blount & Co. was wound up in 1870; it had become so vast, and brought such an amount of new business to the Société Générale which took it over, that Blount was offered the post of President of the latter. An Englishman now stood at the head of one of the greatest of French Banks and of one of the most important French railways, the l'Ouest. He remained Chairman until 1894; in that year of political tension General Mercier, the Minister of War, objected to an Englishman holding such an important position in a State-aided railway, and Blount retired.[1] The Chairmanship of the Société Générale he did not resign till 1901, when he was in his ninety-second year.

During the siege Blount remained in Paris, and when the Legation was closed in 1871, he was for a few months *formaliter* appointed Consul; during this brief tenure of office he officiated at the marriage of his friend, Wallace, later Sir Richard, whose widow presented the Wallace Collection to the Nation. But it subsequently turned out that the marriages solemnized by Blount were not altogether

[1] In order to transfer the Chemin de Fer de l'Ouest into the hands of the State, it was decided in 1909 to put it into liquidation; under the scheme the repayment of the shareholders and bondholders will go on till 1955.

unassailable, for his limited powers had not extended so far. For safety's sake Sir Richard's marriage was accordingly performed over again, and a notice in the papers invited the few other couples to come to the Consulate to be re-married, as the former ceremony might be invalid. Apparently none of the remaining newly-weds were willing to waive this advantage; anyhow no one else turned up.

No biography of Blount, however short it may be, would be complete if it did not mention that he was a great, generous and successful sportsman. Largely interested in the stud and racing establishment of Comte F. de Lagrange, the partnership owned the famous Gladiateur, the first French-bred horse to obtain the blue ribband of the turf (in 1865) and which carried home the fourfold laurels of the Derby, the two Thousand Guineas, the St. Leger and the Grand Prix de Paris. In the Prix du Jockey-Club, the French Derby, the Lagrange-Blount horses were successful no less than five times.

Sir Edward Charles Blount was made a K.C.B. in 1878 by Disraeli; but in spite of the pressure brought to bear by the Prince of Wales in 1884, both Gladstone and Lord Granville (the second Earl, the son of Blount's old chief at the Paris Embassy) refused to give him a Baronetcy on the incomprehensible ground that his achievements bore no relation to the honour. This decision is the more unaccountable seeing that in spite of the extensive activities in Paris, Blount was connected with some of the largest companies in the City. He was first on the board of the General Credit & Finance Company,[1] and when this was absorbed by the Union Discount Company, he became a director of the latter; in addition he was a member of the Board of the London Joint-Stock Bank (now merged with the Midland) and of Rothschild's South Austrian (Lombardo-Venetian) Railway.

His last four years Blount spent in his native country. He was born in 1809, when George III was to hold the reins

of government for another two years; he lived under the Regency, George IV and William IV; he saw the whole sixty-four years of the reign of Queen Victoria, and died in his ninety-sixth year after a married life of sixty-nine years, a grand old Englishman, in the fourth year of the reign of Edward VII, when his present Majesty was ten.

LE COMPTOIR D'ESCOMPTE

FOREIGN EXTENSION—THE COPPER CRASH

AT the beginning of 1848, in the early days of the Second Republic, the Provisional Government in France found itself in a peculiar and distinctly unpleasant financial situation —capital had gone to cover, had completely disappeared, and did not risk emerging from its hiding place until after Napoleon's coup d'état in 1851. A few private banks had weathered the storm, but not much could be hoped from them in the interests of business in general, nor from the Banque de France, for although it had not suffered at all, yet it was hidebound by its constitution and not in a position to meet the urgent requirements of the day. As it was out of the question to expect that the numerous closed establishments would be re-opened in the near future— many of them were never re-opened at all—something had to be done and that quickly. Although the Government took the lead in the negotiations, and the work had to be carried out expeditiously, something excellent and lasting was achieved—the Comptoir d'Escompte.

Its first capital was found in equal thirds by the State, the Municipality, and private shareholders, and in order to attract the latter, it was agreed that they alone should participate in the profits. This Comptoir, and all those which were rapidly formed in all the larger towns, were turned in 1853 into limited companies. Freed from every kind of bureaucratic control, they rendered quite excellent services to the middle-class in particular, and, by the granting of credit, to the smaller business man. Although an emergency foundation, and only intended as a temporary make-

shift, yet the Comptoir "which had received its first modest capital[1] like a sort of charity collection" became a new type of bank, and the precursor of the great sociétés de crédit.

Nothing had as yet been done, however, to establish the deposit transactions in the English style. This defect was to be remedied by the Crédit Industriel et Commercial which was formed in 1859, and in its turn became the model for a large number of other banks, all of which, including the Crédit Lyonnais, established in 1863[2] and the Société Générale (also of 1863),[3] which straightaway had its office in Paris were purely local banks, and until the war of 1870–71 they were not of great importance. The only exception was the Comptoir d'Escompte the pioneer of foreign agencies.

As far back as the early 'sixties the French Government came to the conclusion that it ought to do all in its power to make the Franc independent of the Pound Sterling in foreign trade. As in its opinion the Crédit Mobilier was not altogether suitable for the carrying out of this task, application was then made to the Comptoir d'Escompte which willingly set its hand to this patriotic undertaking. Branches were opened in the Far East, in Shanghai, Hongkong, and in 1867 even in Yokohama, an entirely new district. It was only since 1854, when the Americans, under Commodore Perry, had forced their entry into the harbour, that any foreign trade had existed there at all.

Only a very small proportion of the managers and higher officials who were sent by the Comptoir to the distant establishments, were Frenchmen by birth, for the younger generation was not particularly well trained in banking matters, and showed considerable reluctance in leaving the attractive soil of Paris. In the main the men in charge of the new branches were Calvinistic Swiss (who also formed

[1] Its initial capital was 6½ million francs; to-day it is 787½ millions, of which 400 millions are issued.

[2] It was followed two years later by the Société Lyonnaise (des Dépôts de Comptes Courants & de Crédit Industriel), and at Marseilles by the Société Marseillaise (de Crédit Industriel & Commercial et de Dépôts). All these Banks exist to this day.

[3] The Crédit Lyonnais, the Société Générale as also the Banque de Paris et des Pays-Bas, formed 1872, will be dealt with more in detail in the chapter "The Great French Credit Companies."

the nucleus of the Paris haute-banque, the so-called Haute-Banque Protestante)[1] and German Jews, well trained in banking and arbitrage, who just because their temperaments differed so widely, complemented each other most excellently in their business activities. When in 1870, on the outbreak of the war, all the Germans were dismissed, these officials, with their overseas experience, found immediately a new berth in the recently formed Deutsche Bank. Amongst those who by means of this extensive détour came to the youthful German institution was Hermann Wallich, and it is a peculiar thing, perhaps also a proof of the international character of finance, that the same man who collaborated in giving the Franc its position in world trade, found his true life task in making the Mark independent of Sterling.

In France itself the development of the Comptoir d'Escompte proceeded rapidly; true to its name, it grew to be the greatest discounting house in Paris, and in the classic country of big Government loans it assumed the leadership in large international transactions. The issues it made were readily subscribed, branches were formed all over the country, and the shareholders had every reason to be satisfied; the Comptoir was the first of the four important *établissements de crédit*—Crédit Lyonnais, Société Générale, Crédit Industriel and itself—to come to the fountain head of credit and of banking—to London.

Driven somewhat into the background by the competition of the other banks which had also greatly increased their operations—the Société Générale and in particular the Crédit Lyonnais, had meanwhile advanced into the front rank, subsequent managers of the Comptoir allowed themselves to be tempted into extraordinarily speculative and dangerous transactions. E. Denfert-Rochereau, a son of the illustrious Lion of Belfort, the only fortress which did not surrender during the war of 1870–71, was its President, and a member of the Board of the Metal Company (Société Industrielle et Commerciale des Métaux) whose chairman

[1] See page 395.

and dictator, Pierre Eugene Secrétan, was an influential director of the Comptoir. Under his leadership a Syndicate was formed which conceived the daring idea of cornering copper. The first loans, made on the security of the merchandise it bought, had been granted to the Syndicate by Rochereau without consulting his Board. As their amounts increased—fresh copper came in every day and had to be paid for—a decision was made which was to prove disastrous; it was considered impossible, or at least very difficult to sever the connection with the Syndicate—the bank was too deeply involved, and was now for better or worse bound to the outcome of the corner. As the speculators had hoped, the price of the metal[1] and the price of the copper shares rose, but enormous exertions were made—and with prices at their high level could be profitably made—by the mines to increase output. The quantities now on offer upset all calculations; the strongest Syndicate in the world would have broken down, and the Metal Company stood on a weak foundation; it was bound to collapse, and it dragged the bank down with it. On the 5th March, 1889, E. Denfert-Rochereau was found dead; that, as was falsely stated, he had suddenly died of an attack of cerebral congestion, was believed by nobody and the run began.

Paris was on the point of opening the Exposition Universelle which was to commemorate the centenary of the French Revolution, and everything possible was done by the Government to avoid a panic, for the Boulangists, bent on making capital out of everything, were already on the scene and trying to profit by the situation. The winding up of the Comptoir was carried through exceedingly cleverly, the Banque de France coming to its aid; the capital stock was found to be nearly intact, and the hundred and forty millions which the national bank provided were very soon repaid. The Comptoir d'Escompte had fallen, but it did not perish utterly; under the style of Comptoir National d'Escompte the eminent bank was reconstructed.

[1] Between 1871 and 1881 copper moved in London between £74 and £77; in 1887 it stood temporarily at £101½. The Rio Tinto £10 shares went to well over £100, and subsequently fell to £8.

THE SECOND EMPIRE

ACHILLE FOULD AND THE PEREIRES

GRANT IN LONDON—CRÉDIT FONCIER—CRÉDIT MOBILIER—FRANCE AND PARIS

ON the 10th of December, 1848, Napoleon was elected President of the Republic; a year later he appointed as his Finance Minister a very capable banker who understood his business thoroughly, but was not particularly far-sighted—

ACHILLE FOULD

Even in the days of his father, the founder of Fould-Oppenheim & Co., the bank had been carrying on an extensive business; its customers were drawn from large and reputable circles, and one of them—on the debit side—was the man who had just become President; from the very start of this connection Fould was Napoleon's personal friend and financial intimate.

It was not till relatively late, in 1842, that the wealthy man with the distinguished home—his daughter's governess was Henriette, the daughter of Moses Mendelssohn, the philosopher, and sister of Joseph, the founder of the great banking house—emerged from his seclusion, and took an interest in public affairs, studied the economic questions of the moment, and allowed himself to be elected Deputy. Strong business ties, far stronger than were strictly correct in a politician, bound him to the Duc de Morny,[1] Napoleon's half brother, and so the road was made sufficiently smooth

[1] The Duc de Morny engineered the Coup d'Etat of the 2nd December 1851 and thereby raised Napoleon to the French Throne. His father was Joseph Comte de Flahaut, himself a natural son of Talleyrand, his mother being Queen Hortense.

for even a very ambitious man. Very wisely, however, he refused, in 1848, the Ministry of Finance and preferred for the time being to go on watching developments. A year later—to be prepared is everything—he retired from his bank, leaving the management in the hands of his elder brother, Benoît. The second call was not long delayed.

Fould, not a bad Finance Minister,[1] tried to keep the Budget to some extent balanced—a particularly difficult task when politics are on the wrong road; he did not make things easier for himself by entering office laden with convictions which form a specially heavy burden when they happen to be wrong; in so far as it is possible for a capitalist to do so, he professed a strongly diluted St. Simonian Socialism, and as a man of affairs, anxious to fight his strongest competitor and to keep all good affairs for himself, he was the opponent of the Rothschilds. But Fould succeeded only to a small extent in drawing the dividing line between his private views and the requirements of the State, between his profession and his office.

The intention to make the Government independent of "the great bankers" was one which was bound to appeal to Napoleon, for in his early days he was not particularly favourably disposed towards them; that no definite break was ever made with Baron James, not even when at the Tuileries they complacently flattered themselves that he might permanently be looked upon as a quantité négligeable, was due solely to the very prudent Eugénie, who never had a very high opinion of Fould. If in the unequal and futile struggle he dreamed of all sorts of schemes far too ambitious for the aggrandisement of his own house, yet, in spite of temporary and ostensible success, in the battle with the titans he did not even play the part of a Don Quixote.

The Haute Finance and the Government did not during

[1] Achille Fould was twice in charge of his country's finances, from 1849 to 1852 and from 1861 to 1867; from 1853 to 1857 he was Ministre d'Etat. When compelled in 1867 to retire from office he felt very resentful and refused every post offered him, even that of Ambassador in London. He died a few months after his resignation. —Benoît Fould, the elder brother, a Deputy in pre-Napoleonic days, from 1834 to 1847, was politically not outstanding.

the Second Empire work hand in hand as the term is usually understood—they did far more, they entered into a partnership which was not even concealed. In spite of all this, however, and in spite of the theories of the late St. Simon and the ideas of the still living Proudhon, whose Utopian conceptions of a gratuitous credit were at the time not yet entirely discountenanced, still something quite excellent, lasting and original was achieved in bank foundation; a mortgage bank with the right of issuing debentures received in 1852 a concession in order, by improving the conditions on which credit was granted, to help in putting on its legs again an almost prostrate agriculture. Although imperfectly carried out by a management without any clear policy at the start, the idea was so good and an institution of the kind such an urgent necessity, that even the control and co-operation of the Government were unable seriously to injure the bank. The Crédit Foncier survives to this day,[1] and its sound principles have caused similar institutions to be started all over the world.

The first, but unfortunate, copy of it in this country, the Crédit Foncier of England, whose correct name was International Land Company, was born under an unlucky star, for at its head stood

BARON GRANT,

whose real appellation was Albert Gottheimer, but who in spite of this felt that it was his mission to "christianize capital." Unlike so many of his colleagues, this curious promoter did not end, but began, his career as a traveller in wines. When towards the end of the eighteen fifties they became fashionable, he also (in 1859) founded a discount company which he called the Mercantile Discount Company, and which, on the strength of deals which had nothing whatever to do with discounting, distributed, but only once, a dividend of 10 per cent; in 1861 it vanished. Grant con-

[1] The Crédit Foncier de France began with a capital of 60 million francs, which has since been increased to 375 million.

sidered that the quickest way of effecting a religious conversion by means of the Crédit Foncier—whose board included Lord Cranborne (who subsequently, from 1868 to 1872, was Chairman of the Great Eastern Railway, in 1871 and 1872 had, under a special Act of Parliament, the task of trying to bring order into the very tangled affairs of the London Chatham and Dover Railway, and eventually as Marquess of Salisbury became Prime Minister)—was for the Company, quite contrary to its declared objects, which were to lend on mortgage of real property, to become interested in all possible kinds of undertakings in England and on the Continent, such as the Millwall Docks (1864), the Varna-Rustschuk Railway, and building property speculations in Marseilles and Brussels. In Milan the Galleria Vittorio Emanuele, with its very Continental Café Biffi was built in 1865—a fact which accounted for the bestowal of the Italian Barony, the market quotation of which at the time was about as low as that for the currency of the country—and the lampoonists, for whom Grant was an ever-ready target, composed the lines:—

Kings bestow title,
Honour they can't.
Title without honour
Is a Baron Grant.

In the course of its activities extending over four years the English Crédit Foncier financed so many undertakings that its list of assets grew more and more lengthy but more and more valueless, and ultimately it silently gave up the ghost.

In 1876 the Lisbon Steam Tramways brought Grant before the Courts. These proceedings provided two sensations; at the instance of the Duc de Saldanha, Portuguese Ambassador in London, and without making very detailed inquiries about the financier or his business methods, Lord Henry Gordon-Lennox, Disraeli's great friend, had joined the board and thus allowed himself to be used as a "decoy

duck" for the purpose of catching unwary speculators. Gordon-Lennox was entirely innocent, and had even himself purchased a considerable block of shares, but owing to judicial animadversions on the conduct of the directors, he had to resign his office as First Commissioner of Works. The second sensation was provided by Grant himself; after the Judge had made a ruling invidious to Grant, all the Counsel representing the financier retired from the case. Yet Grant conducted his case so ably that, although he did not win, he was complimented by everybody, the Judge included. But this succès d'estime did not prevent his being sentenced, nor did it check his decline; in 1877 eighty-nine actions were pending against Grant in the Court of Appeal, and a financial mathematician has calculated that thanks to this promoter, who may more correctly be called a precursor of Ernest Terah Hooley than a successor of George Hudson, nearly twenty million pounds were lost.[1] Grant was in Parliament for a time and in 1874 purchased from the Metropolitan Board of Works at a cost of thirty thousand pounds the neglected area of Leicester Fields, converted it into a public garden (Leicester Square), and bequeathed it the Shakespeare statue, a reproduction of Scheemaker's statue in Westminster Abbey. The popularity which he sought did not materialise, however, for his business methods were too well known. On the occasion of the unveiling in Leicester Square a broadsheet sold in the streets ended by saying that Grant had made the gift solely because he wished his name for once at least to be connected with "something square." The very day after the opening ceremony Grant was unseated for bribery at Kidderminster.

If action in Paris had stopped with the formation of this one bank, the Crédit Foncier, a financial débâcle of any kind, and especially the one which soon after ensued, would have been avoided. Another and much more far-reaching

[1] Grant had promoted 37 Companies with an issued capital of £25,112,008, which in the end was worth no more than £5,622,460.—He died comparatively poor at Bognor in 1899.

plan had, however, long been deliberated and matured in the intimate circles of the Palais de l'Elysée and recommended with special emphasis in an official report by Napoleon's most confidential minister, Persigny. In order to stimulate and promote speculation, a bank was to be formed as a corollary to the Banque de France. This was a totally superfluous effort, for suspicious and cautious though the French middle-classes might be, capital was more than ready for any and every adventure. The sponsors had in view a curious admixture of sound and speculative models —a cross between the ultra-conservative Prussian State Bank and John Law's Banque Royale, and it is significant that the new bank and the Second Empire made their appearance at the same time.

Associated with Napoleon, the spiritus rector, and Achille Fould, was

EMILE PEREIRE,

the real father of the crédit mobilier idea.

The Pereires had come from Portugal, Jacob Rodrigues, the grandfather, the first teacher of deaf-mutes in France, having in 1777 obtained permission for his Jewish compatriots to settle in the country. Emile, the more prominent of the two brothers, and Isaac, were by conviction Socialists, by profession dealers in stocks and shares, by vocation journalists (and to the present day this combination of politics, finance and press is no rare occurrence in Paris). Emile's literary career started in 1832, and his articles, first in the *Globe*, then in the *Temps* and the *Journal des Débats*, attracted attention in many quarters: the writer had something to say. Although Socialistic demands were not likely to appeal to James de Rothschild, this clear-thinking observer, working for the construction of railways, interested him. He accordingly sent for the young man, who proved useful and was taken into collaboration. Pereire, active and pushing, supplied the bright ideas, Rothschild had the necessary means for financing them. The successful combine

carried through amongst other great transactions in 1835 the Paris-St. Germain line, in 1837 the Paris-Versailles, and in 1845 their greatest achievement, the Chemin de Fer du Nord.

Co-operation lasted till 1848, and made Pereire a wealthy man. But a new light now dawned on the financial horizon, and as his make-up was totally void of any gratitude or kindred feeling, Pereire left his old chief, left his post with the Chemin de Fer du Nord, and joined the sun which he thought to be the rising one—Achille Fould. The forsaken Baron gave instructions that Pereire's desk was not to be removed, "petit Pereire reviendra," but in this he was mistaken, nor, if he had returned, would Rothschild's have taken him.

The depression following the collapse of the crazy railway speculation in 1847 did not last long; the discovery of goldfields in California in 1848 and in Australia in 1851 gave the first impetus to the turning of the tide. Undreamt-of quantities of gold flowed by way of England across Europe. An enormously increased spirit of adventure, hampered for the moment only by the political situation, by the Russo-Turkish War (1853) and the Crimean War (1854), furthered trade and industry throughout the world; finance, which as far back as 1815 had shown signs of becoming international, now in fact became so, and banking received the impetus which was to bring it to its present position.

A profound and important change took place in the financial and social structure of

France and Paris.

A man who in constant monetary straits stops up one hole by making another and who is compelled to execute a perpetual eggdance amongst more or less dangerous debit balances, will in the end, after every fresh success in averting imminent catastrophe, think himself a financial genius, whilst in fact he has only become a financial acrobat.

Napoleon had fallen a victim to this kind of self-deception; he thought he could size up for himself the far-reaching schemes of men who were really nothing but dilettanti, or experts with vital interests of their own; to Toutes les Gloires de la France he wanted to add the one of making Paris the leader of finance too. Under Imperial patronage the most intimate relations were formed between every class of society, from the populace, the Government, the clergy, and the great nobility in the Faubourg St. Germain down to the threepenny rentier on the one hand and finance and the Stock Exchange on the other. Money, so we are told, "became the god, speculation the creed, the Bourse the temple, the stand of the agents de change the altar, the official quotation list the Bible, the bankers the priests, the brokers the believers, and the investors the martyrs." Less picturesque and eloquent, but even more drastic was Rothschild's expression of opinion. Twenty years ago, so he said, hardly any one but bankers owned any securities; at present, however, everybody had some rente or railway shares. Napoleon, he added, had acquired a totally false view of the situation; if ever it should enter his head to start a war, there was no doubt that "l'Empire sera foutu."

For the moment, however, things still looked bright; la vie parisienne attracted everybody in Europe who had any money; speculation was almost as strong a magnet as the cancan and those who danced it. At the time when the tide had reached high-water mark, everybody in the Ville Lumière, whence Napoleon directed the policy of Continental Europe, and subsequently still imagined that he was directing it, was so intent on money-making that the bulletins relating to foreign affairs occupied a less important position in the papers than the Stock Exchange List.

If a popular slogan is drawn up correctly and announced by the right people at the right moment, it is always possible, in finance and politics, and also in literature, art and fashion, to achieve success and do business, and nowhere is this so easy as in the country of the highly inflammable Gallic

temperament. To make the State independent of individual capitalists, to create a great reservoir into which every small saving of the citizen would flow and be directed only to those quarters where public or industrial credit required it, to implant into trade and commerce a "spirit of initiative" —these were the slogans with the aid of which a completely new type of banking, a money power of an entirely novel kind, was to be created. Thus Paris became a centre of international finance and of foreign loan issues, but in the few years from 1853 to 1861 the French national debt was increased by 4,140 million francs, and the Rente fell from 86 to 67. "Je ne suis pas banquier," Emile Pereire on one occasion said of himself, but unfortunately there was no one at hand to impress upon him that in that case he was not capable of conducting a bank or of exercising from its presidential chair supreme influence over the financial policy of a country. A painter who depicted leaves blue and the sky green and replied to Augustus of Saxony's objections, "that is how I see nature," had to pocket that often unfairly ridiculed Monarch's retort, "in that case you ought not to have become a painter"; Pereire, however, who boasted of not understanding his trade, was supported by Napoleon both before and behind the scenes. And so everything happened as it was bound to happen; an institution good in itself showed to the Second Empire only its dark side, and the new fashioned bank, the

CRÉDIT MOBILIER,

in the most old-fashioned manner stopped payment.

In so far as the founders were not actuated solely by the motive of money-making, they had in view a Socialism sufficiently watered to make it fit for consumption by an Empire; so long as it was not possible, was their argument, to nationalize every undertaking, surely it was better to dress it up in a social form in which many could participate, rather than leave it in the possession of a few individuals. The second attraction of the Crédit Mobilier was to be the

fight against the Rothschilds and their monopoly, and Pereire, whose thoughts in this connection cannot easily be followed, called himself the champion of Portuguese against Germano-Jewish banking. As far as the so-called Rothschild monopoly was concerned, it never existed, and people could only be induced to believe in it because all the other financiers, including Fould and Pereire, were so much less efficient.

But all this was nothing but outward show, window dressing, slogan. What the men at the back of it really aimed at was the domination of the Stock Exchange—they wanted, under the flag of the société anonyme, to speculate with the money of the shareholders and the depositors; and the Articles of Association, which provided that any and every kind of business might be transacted, did not pretend otherwise. Far more dangerous, however, was the fact that the Crédit Mobilier was authorized to purchase and grant loans on the security of its own shares. In this partly credit, partly speculative bank, which neither went in for commercial banking nor was intended to be a holding company, the depositor of money on interest and the investor pure and simple were equally welcome; most welcome of all, however, was the speculative investor who paid for his first purchases, but left the securities with the bank as cover for further speculations.

BAL MOBILIER

THE HEINES IN HAMBURG AND PARIS—TORLONIA—OPPENHEIM OF COLOGNE—CAHEN D'ANVERS—KOENIGSWARTER—DUC DE GALLIERA

THE list of guests who accepted the Invitation to the Valse contains almost without exception the names of all those with money and with enterprise enough to risk it on a new idea; it gives a panoramic view of the strongest and most active of the money powers of Europe towards the middle of the century. Side by side with names which to-day, eighty years later, have dropped into the background, or are almost forgotten, we find those of business houses which are still at the height of their power, and whose signature, affixed by the grandsons or great-grandsons of the partners of those days, enjoys still the same respect. In the peculiarly mixed crowd of those who met for the promotion of the Crédit Mobilier, professional finance joined hands with politics, members of the old nobility rubbed shoulders with men on whose escutcheon the colours had hardly dried; for the urge to make money is a great leveller, which obliterates all distinctions of position and of faith.

One of the two metteurs-en-scène, Achille Fould, preferred, as Finance Minister, to keep his activities in the background and remain invisible. His brother, Benoît, took up exactly a quarter of the shares offered[1]; the concession was made out in his name jointly with those of his firm and the two Pereires.

In the front rank of the great subscribers stood Salomon Heine & Co., the Torlonias, and Sal. Oppenheim Jun. & Co.

[1] The capital amounted to 60 million francs, of which to start with only 22 millions, divided into 44,000 shares of 500 francs each, were issued.

Born in Hanover in 1767, Salomon Heine had come to Hamburg without even the proverbial shilling in his pocket, and he left behind him one of the most important European banking houses. After the great fire which devastated the town in 1842 and which in extent and violence almost rivalled the great Fire of London in 1666, Salomon Heine was the only one of the local bankers who declared that he was ready to continue the discounting of all legitimate acceptances, and to do so at the rate of four per cent. By so doing he saved the credit of the whole of the mercantile community, and at the same time put an end to the extortion of the other bankers—and not only of the small ones; in connection with the loan offered for subscription for the purpose of rebuilding the city he took up for himself and his firm a total of eight million Marks. In recognition of these two public spirited actions he was refused the right of citizenship and denied admission to the Chamber of Commerce.

Two years later the great banker died, leaving immense bequests, and only his nephew, who had on several occasions caused him great annoyance, came off badly. But the curtailment of his financial resources, effected by an irritated uncle, however painful it might be, could no more injure the fame of the greatest German lyric poet than any measures, taken in later years against the memory of Heinrich Heine.

After their experience at Hamburg it is not altogether surprising that the sons of Salomon Heine should have preferred the air of France to that of Germany. The new Paris firm, which had extensive means of its own at its disposal—when Charles Heine, Salomon's son, died, he left sixty million francs—specialized in the issue of State loans. To-day the firm of Heine et Cie, which curiously enough is included in the Haute Banque Protestante,[1] has lost much of its old activity, and its main business has been confined for long to the management of estates.

The enormous wealth of the Torlonias, which verged

[1] See page 395.

on the fantastic, was also of recent date. Giovanni Torlonia, who started life as a poor cicerone, had laid its foundation by his shrewd manipulation of assignats during the French Revolution; the title of Prince bestowed upon him was inherited by his eldest son Marius, but the driving force of the bank, where many kings kept an account, was in the third son, Giovanni Alessandro, who added to his inherited fortune a still greater one earned by himself, which he spent in charity on the grandest scale. A present-day Torlonia married a daughter of ex-King Alphonso of Spain.

The Cologne firm of Sal. Oppenheim Jun. & Co. has already been several times mentioned in these pages; for more than half a century they stood in the forefront of Rhineland bankers, and only lost their leading position in the iron and coal industry when the public banks began their movement towards concentration at the beginning of the present century.

Of less importance than those of the above three firms were the blocks of shares taken up by Charles Laffitte, of Charles Laffitte, Blount & Co. (q.v.) and L. Cahen.

As proved by his success, L. Cahen was an efficient banker, without a doubt fitted for better things than following in the well-trodden paths marked out by others. He took a prominent part in the financial development of the Argentine and the construction of its railways, and partly in collaboration with Rothschilds he financed copper and lead mines in Spain. He became better known, however, and even famous, through his harmless and amusing assumption of another name upon which he insisted with iron consistency.

At an early age he had emigrated from Bonn, his and Beethoven's native town, and had settled in Antwerp—Anvers—where a brother of his wife, Louis Raphael Bischoffheim (the Bischoffheims will turn up again in this volume) carried on a banking business, and where he himself became first a produce dealer, and subsequently a banker. In 1849 he moved to Paris, 47 Rue Laffitte. Living not far

from him was, in addition to the Rothschilds, a man carrying on the honourable but apparently not very lucrative profession of an old-clothes dealer who possessed two characteristics which in the course of time were to make him a not very desirable neighbour: his name was likewise Cahen, and it was only on the rarest occasions that he was ready to meet the bills drawn on him, which led to many being protested. Not infrequently this brought about painful misunderstandings, and in order to avoid these and at the same time draw a visible line between the solvent banker and the shaky old-clothes-dealer, the financier added to his name—not quite correctly—his place of origin, and eventually from sheer vanity the official business name became also the private society name Cahen d'Anvers, which with a fine show of modesty he at times shortened to C. d'Anvers. In spite of much jeering and even occasional lampoons in the press he stuck to the name. The story goes that a member of the Cologne banking house to which we have already referred, on one occasion perpetrated the following jest: having to sign his name immediately below his Paris colleague's he likewise abbreviated it so that C. d'Anvers was straightway followed by O. de Cologne.

As the Crédit Mobilier was to be in direct competition with them, it is not surprising that the Paris Haute Banque did not figure prominently among the first shareholders of the new establishment, but Mallet Frères & Cie. took up, probably for business reasons, a fairly considerable block, and they were represented on the Board by Charles Mallet. London bankers are completely absent, and only Theodore and Mathew Uzielli, the partners in Devaux & Co., attract attention by a good-sized holding.

The name of Koenigswarter means something only to the older members of the present generation. Coming originally from Koenigswart, in Bohemia, they proceeded by way of Fuerth, in Bavaria, and in time conquered almost the whole of Europe, with branches in all capitals, starting

in 1817 in Amsterdam and in 1878 arriving in Paris; eventually they even found, as Barons Koenigswarter de Csabacsued, a place in the Almanac of the Nobility. In 1826 they came to Frankfort, where Marcus Koenigswarter opened a banking business (which closed its doors in 1877); his son Moritz, the most prominent member of this cosmopolitan finance family, settled in Vienna, where he held a very high position and for a time exercised a predominant influence on the Austrian finance administration.

The glory has considerably departed also from the name of Galliera, although during the second half of last century Rafaele Ferrari, Duc de Galliera, was one of the greatest of the money powers, and in some form or other played a part in the majority of the financial transactions of his day. Especially during the years of the construction of the great French and Italian railways, in the development and financing of which he took a considerable share, his income assumed gigantic proportions. His business methods did not meet with unqualified approval, but it must be said to his credit that in matters of public welfare he had an ever open hand, and, for instance, found out of his own pocket twenty million lire for the development of the harbour of Genoa, his native town. When he died, in 1876, he left a fortune which was estimated to amount to at least two hundred million francs, the whole of which was inherited by his wife, the Duchess Marie. During her lifetime she endowed various great institutions, and in her last Will left the whole of her capital to public and charitable purposes, for her son, Philippe Ferrari, had declared his intention of not accepting even a fraction of the paternal fortune. On the death of the Duchess in 1888 the city of Genoa inherited more than thirty million francs and Paris over forty million as well as the Hospice Ferrari, near Meudon, the Galliera Orphanage and the imposing Musée Galliera. A not inconsiderable sum of money came into the hands of the recently widowed Empress Frederick, who was enabled by means of this windfall to build Schloss Friedrichshof, near Cronberg,

in the Taunus, without having to cut down her expenses in other directions.

A dexterity not encountered every day was one of the gifts of Count Morny, who achieved the almost impossible in reconciling his position as Président du Corps Legislatif with the office of Director of the Crédit Mobilier, the first list of shareholders of which included, as a special show-piece, the name of the daughter of Nicholas I. of Russia, the Duchess of Leuchtenberg.[1]

And now everything was set for the Ball.

[1] When with the downfall of the Empire his Italian Kingdom also came to an end, Eugène Beauharnais, the son of the Empress Josephine, took the title of Duke of Leuchtenberg; his son Maximilian married the Grand Duchess Maria Nikolajevna, the daughter of the Emperor Nicholas I.

LA DÉBÂCLE

THE men round Napoleon were clever schemers; on the 20th of November, 1852, the *Moniteur Officiel* published the Decree for the foundation of the Crédit Mobilier; on the 21st the plebiscite declared by eight million votes (against a negligible two hundred and fifty thousand) in favour of an Empire, on the 23rd of November the 500 franc shares of the new bank were introduced on the Bourse at 1,100 francs, four days later they stood at 1,600 francs. A rise of 320 per cent may perhaps be looked for in a gold mine, where there is a hope that the next day the reef may be struck, but it is hardly conceivable that a company formed to carry on banking has ever had such a sensational start; banking and sensation, however, are not very good bedfellows.

The profits at first were above all expectations good; in 1853 a dividend of 10 per cent was distributed, a year later another of 13 per cent, but they had not been earned by legitimate trading. A public company ought, in fact, not to speculate at all and if it does, it ought to look upon the profits realized thereby as casual, as capital accretion, and not as distributable income. Besides which, those profits had not been made in an entirely unobjectionable manner: in order to be able to pay a high dividend, the management, shortly before the balance sheet had to be made out, bought large blocks of the shares in their portfolio, thus sending their prices up. Afterwards, when this support ceased, prices went back to their former normal level, and the dividend had been paid out of capital—a course impossible to maintain for ever. Later on, no amount of financial juggling could cover the losses.

The Crédit Mobilier stood at the peak of its success in 1855, by which date it had managed to collect in its own hands roughly a third of the French issuing business. In London the Barings were its strong allies; railways were being financed in France, Austria, Russia and Spain; a number of sound financial undertakings had been founded, and a great deal of money was being made in Paris itself by means of a not too creditable partnership with Eugène Haussmann who, as Préfet de la Seine, was providing the city with a new network of streets laid out on a strategical design. At the time a pathetic complaint by Madame Haussmann went the round of the Paris salons: no sooner had her husband purchased a house than he had immediately after to hand it over to the Government, because it was wanted in connexion with the making of a new road.

In this year of our Lord (1855) the Crédit Mobilier had made a profit of 28 millions on a capital of 60 millions. The management, far more prudent than might have been expected, tried to avail itself of this opportunity in order at last to constitute a strong reserve. The Government, however, needed a visible and resounding success, and the bank which, as the result of an evergrowing combination of politics and business, had become the main stronghold of Bonapartist finance, was instructed to distribute the whole of its profits. A dividend of 47 per cent was paid, but immediately after the decline set in.

The spirits which Napoleon had called up from the vasty deep had become stronger than their master, and could not be laid; thanks to his experiments and those of the Crédit Mobilier in arousing the "spirit of initiative," the development of France had proceeded in one direction alone—towards factories, railways and banks. The rural population, attracted by the high wages, had migrated to the towns; estates had been sold and the proceeds invested in industrial securities, and in spite of the Crédit Foncier agriculture had been neglected. In consequence the consumers of foodstuffs increased whilst their producers decreased. Only

[*Photo : The Rischgitz Art Studios*

ISAAC PEREIRE

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in very good years could France grow the total of her corn requirements, and as the excess of the trade balance was insufficient to finance the ever necessary imports, these had to be paid for in gold—not a very pleasant business when no new capital was coming in and far too much had already—by the Crédit Mobilier itself—been invested abroad. The majority of the Russian railway shares, though offered all over Europe, had been taken up in France alone, and the great participation in the Austrian-French State Railway did not produce the expected returns.

This great railway company had been surreptitiously acquired by the Crédit Mobilier with the assistance of Arnstein & Eskeles; these Austrian State bankers had occupied a leading position in Vienna long before the advent of Solomon de Rothschild, and soon after his arrival had carried through many important transactions in collaboration with him. After a while, however, their love turned to hate, which eventually grew so intense that at all the general meetings of the Rothschild companies the Arnsteins were in open opposition. Hence it was natural that they should combine with the Crédit Mobilier, whose hostility towards the Rothschilds attracted their sympathy, and who did indeed do everything in their power to enable their new friends to acquire the necessary block of shares when the Austrian Government, badly in need of money, was compelled to sell. Now the names of Daniel Eskeles, Adolphe Fould (the son of Achille) and the two Pereires figured prominently side by side with the Duc de Morny on the Board of the State Railway,[1] and only the Rothschilds were missing. It looked almost as if the Crédit Mobilier and its followers had won the final victory, but appearances proved deceptive: Rothschilds outlasted them all, and their Vienna management dealt the opposition a smashing blow when it founded the Austrian Creditanstalt.

[1] The full name was Imperial & Royal Privileged Austrian State Railway Company. For a great number of years the shares were one of the leading speculative securities on all the Stock Exchanges of Europe. In Paris they were called *Autrichiene*, in Berlin *Franzosen*, and in Vienna and Frankfort *Staatsbahn*.

The Crédit Mobilier's year of triumph was followed by 1856; "only" 24 per cent could be distributed, and the next dividend amounted to 5 per cent: it was the last. The Austrian-Italian-French War of 1859 dealt the bank severe reverses which swept away its never very imposing reserves; the Mexican adventure shook it for the first time to its foundations.

The Mexican Loan had been practically forced upon the Crédit Mobilier by its exalted patron; however willing Pereire and his associates may have been as a rule, they would never have financed Maximilian's expedition without strong pressure. The loan[1] was little more than an acceptance drawn upon the credulity, the irresponsibility of the French investor, and no one would have applied for it if the French Government had not so to say endorsed Maximilian's bill, and in so doing assumed an obligation which looked very much like a guarantee. In the same year, however, Washington refused to recognize the Empire of Mexico and Napoleon withdrew himself and his troops; in 1867 Maximilian was shot and Juarez repudiated the loan.

The war of 1866 showed how weak Napoleon had become; it was now some time—that of the Italian-Austrian War —since he had been the arbiter of the destinies of Continental Europe, and it was no longer in his power to prevent the struggle between Prussia and Austria for German predominance. Serious cracks were already showing in the edifice of the bank, and for the first time the price of its shares fell below par, to 350 francs. Napoleon was more than willing to help, but his own throne was tottering; he dared not run the risk of compromising himself again, and had to look on while matters took their course. From 1867 on the Crédit Mobilier was virtually in liquidation. The condition on which Napoleon I's State bank came to the rescue of the speculation bank of Napoleon III led to

[1] The 6 per cent Imperial Mexican Loan of 1865 was issued at 63; including amortisation, it would have carried 11.45 per cent interest.

the immediate resignation of Pereire. The ignominious collapse of the bank was for the Emperor like the loss of a decisive battle.

And yet the Crédit Mobilier was better, even very much better, than its reputation. Pereire's creation was epoch-making for the gigantic concentration of capital in the hands of powerful finance companies, was a landmark of the very first importance in the development of banking in its present day form, and was quite definitely the most momentous bank foundation on the Continent during the nineteenth century. If others than those who conceived the idea had been entrusted with its management, a great and lasting undertaking would have been the outcome.

The Crédit Mobilier was dead—the crédits mobiliers survive. Although there is no doubt that they are attended with certain risks, yet these banks which carry on a mixed business—which take deposits, deal in securities, in share issues and in every variety of credit transactions—are a necessity; the extent to which they buy securities on their own account with the desire of selling them at a profit—to put it plainly, with a view to speculating—depends on the views of the managers, and it is a fact that far more importance attaches to the person who runs them than is the case with an English bank conducted on orthodox lines. The country in which these universal banks were and are most urgently required is Germany, with its traditional two needs for every Mark. England alone, with its unequalled reserves, could afford the luxury of clinging to the rigorous division between the two sides of the business, excluding the banks proper from participation in industrial promotions and from speculation of all kinds.[1]

In the rest of the world the universal bank has, generally speaking, more than stood the test of time, and if it were

[1] This country did not, however, altogether escape them; they made their appearance, not directly as banks, but in such a form as the General Credit & Finance Company (see page 127) which, as is shown by its name, was rather a kind of finance company.

not that certain painful events remain in our memory, leaving us with fears of worse to come, we might almost be inclined to describe their achievements as a triumph. The Amsterdamsche Bank, the Swiss Creditanstalt and the Swiss Bankverein, the Banca Commerciale Italiana, to name but a few of the leading[1] ones, are crédits mobiliers, chips of the old block; and where Pereire, the father of the idea, was wrecked, Georg von Siemens with the Deutsche Bank and Henri Germain with his Crédit Lyonnais were successful.

[1] See Appendix page 395.

THE GREAT FRENCH CREDIT COMPANIES

HENRI GERMAIN AND THE CRÉDIT LYONNAIS—SOCIÉTÉ GÉNÉRALE —(COMPTOIR D'ESCOMPTE)—BANQUE DE PARIS & DES PAYS-BAS —LÉON SAY AND THE INDEMNITY

THE first modern bank had collapsed, but now, thoroughly purged from all its impurities, it arose anew in France with the help of Henri Germain, le maître à eux tous, the pattern of all managers of a credit bank.

In 1863 Germain had founded a small bank in his native city of Lyons; and disdaining the use of the long name which had hitherto been customary to indicate the proposed programme, he had called his establishment simply CRÉDIT LYONNAIS. In spite of this the new bank had a definite purpose in view, a purpose sound and well considered.

Its main object was regular banking business, and only the profits accrued from this branch were to be utilised for dividends. Germain was by no means prepared to neglect other departments of business, but he subordinated them to commercial banking and the profits arising from them were not distributed as dividends, but were looked upon as capital accretions, applied, in the first instance, to internal writings-off and secondly to the creation of vast reserves. Above all, stress was laid on the need for the absolute soundness of investments and credits and for the maintenance of liquid cash resources. Germain insisted on truth in balance sheets, but this was qualified by his complete disinclination to publish any details in his yearly reports; for criticism in general and that of the Press the great financier had but little use.

Germain was a scientific banker, though in quite another sense than Overstone; no theories of any kind were advanced by the eminently practical Frenchman, but he saw to it that any transaction submitted to him was first examined with the assistance of technical, engineering, chemical and other experts employed by the bank, and then entered upon with scientific organization. New processes in every department of applied science were studied with the utmost care, all new movements in finance were investigated: it was said that the Service des Études Financières,[1] which had its seat on the top floor of the bank premises, was the real spiritual head of the bank.

To-day the principles, tested in practice by Henri Germain, who for more than forty years (1863–1905) was Président du Conseil d'Administration, have become the common property of all; but this was far from being the case when he started the Crédit Lyonnais. That they were right was seen in the result: a local bank was transformed into an international bank, and to-day the paid up capital of the Crédit Lyonnais amounts to 408 million francs, whilst it has accumulated open reserves of more than 800 million francs.

It was not until the third year after its formation that the bank opened a branch in Paris; to-day it has spread over the whole country, has extended its operations to Belgium, Spain and Egypt, was represented before the war in Russia and Constantinople, and in addition to its office in the City also has a branch in the West End of London.

In the same year (1863) which saw the establishment of the Crédit Lyonnais and the relaxation of the provisions of the Company laws, there was founded the SOCIÉTÉ

[1] In Germany the Disconto Gesellschaft was the first to open a research office in 1870.

The great and excellent archives of the Deutsche Bank have grown from the smallest and most modest beginnings in 1873 when Frau von Siemens collected newspaper cuttings for her husband. She herself writes as to this: "As we were, however, unable to take in more than one newspaper, I made inquiries amongst all my acquaintances as to what newspapers they subscribed for, and asked them if I might come from time to time to go through the old papers and cut out the balance sheets." The Dresden Bank's research office was established as late as 1903 by Dr. Schacht.

GÉNÉRALE pour favoriser le Développement du Commerce et de l'Industrie en France. During the first few years of its existence its growth was much hampered by the monopoly of the Crédit Mobilier, of which it was itself at the start little more than an offshoot. "Advancement of Commerce and Industry" meant—if looked at closely—the granting of industrial loans, investing and speculating.

The long and programmatic name of the Société Générale led to the charge that it was concerned far more than was necessary or advisable with the promotion of commerce and industry in Algiers, Syria, Belgium, Spain, Hungary and Austria, in each of which countries it was represented by branches of its affiliated banks, but on the other hand did little or nothing to "favoriser" commerce and industry "en France." That reproach, which was more than atoned for by the honourable epithet of "La Vertueuse," would be decidedly unjustified to-day, for the Société Générale has at present a far greater number of branches[1] within the borders of France than any other bank.

The Comptoir d'Escompte (whose early history is dealt with in a separate chapter) had spread meanwhile to every Continent with the exception of America, and has branches in North Africa, Madagascar and Egypt, in Bombay, Melbourne and Sydney, and in this country in London, Liverpool and Manchester.

The last of the great French credit institutions was founded in 1872, not long after the war with Germany, as the result of the merger of the Banque de Paris with the Banque des Pays-Bas; the latter had been established in 1862 by Goldschmidt & Bischoffsheim under the name of Société de Crédit et de Dépots, and had been formed in Amsterdam in order to escape the severe company laws which at that time still existed in France; the real head office of the bank, however, was from the start the Paris branch. The new undertaking was an investment bank,

[1] Between 1894 and 1937 the number of branches in Paris and its suburbs has grown from 37 to 98, of those in the provinces from 141 to 535.

whose main field of activity lay in the creation of new industries, chiefly of those on a large scale. It maintained foreign branches in Amsterdam, Brussels and Geneva, but not in London.

The development of banking in France resembled, although for different reasons, that in England and in Germany; for here also most of the modern money powers began as purely local provincial establishments, and only later on, when they had grown beyond themselves, set out on the march to the metropolis. Once this goal had been reached, Paris, by means of a network of branches which, in that characteristically economic country, covers the whole of France down to the very smallest towns, attracted all the movable capital, and eventually also the conduct of all affairs; the financial as well as the commercial organisation is more centralized in France than in any other country.

The monopoly of the Crédit Mobilier, which hampered the development of all other banks, had barely come to an end when 1870 dawned. Before this the only joint-stock bank of any importance was the Comptoir d'Escompte. Only during the war did the strong but hitherto badly organised powers of the country consolidate themselves in a common endeavour to master the situation. Misfortune gave the banks an enormous impetus; they developed with a marvellous verve, and the Banque de France proved itself a truly national bank. It put fifteen hundred million francs at the disposal of the Government by way of loan, and in 1873 handed over to the Treasury a further hundred and fifty million in gold.

This policy of a formidable gold reserve, which enabled the country to surmount its difficulties in a remarkably and admirably short time, and which gave the banking organization of France its mainstay, was inaugurated by Leon Say.

Say's ideas influenced the financial position of the new France to such an extent that, although he was never a

financier in the true sense of the term,[1] yet owing to his activities he must without a doubt be included among the money powers of his country. His work lay mainly in two directions: after the war had been lost he laboured for the financial liberation of the territory and for the reparation of the damage caused by the war and the Commune. In a period and amidst surroundings of boundless excitement he managed to keep completely calm, and was able in the first place to convince himself of the true state of affairs and then, which is at least equally important, to place it unreservedly before others. In this way alone was it possible to ensure that the necessary steps were taken to prevent the collapse of the State and its banking system both during the war and after.

France's first appeal to the money markets after the peace of May the 10th was made on June the 20th, 1871: 2,000 million francs (5 per cent at 82½) were asked for, 5,000 million were subscribed, and this at a time when "the monuments of Paris were still smoking from the fires set by the insurgents of the Commune." On July 15th, 1872, a further 3,000 million francs were offered. Although this loan followed barely thirteen months after the first, it was possible to fix the price of issue two per cent more favourably for France at 84½. The response was positively overwhelming, and staggered even the most experienced financiers: subscriptions reached the enormous sum of 44,000 million francs, of which 18,000 came from France itself and 26,000 million from abroad.

The spectacle of 1815 was repeated; France had been beaten in the field, but the whole world rallied to the support of a country whose credit remained unimpaired. In spite of all the sacrifices she had made it was estimated that in 1875 France still possessed 12,000 million francs' worth of foreign securities, the best reserve for a country to have;

[1] Coming from a family of great economists, Leon Say was called by his schoolfellow Alphonse de Rothschild to the administration of the Chemin de Fer du Nord; this was the first stepping stone in his great career. After 1872 he repeatedly became Finance Minister, and in 1880 was for a short time French Ambassador in London.

and the regular income from these gave the valuta its stability and enabled the Banque de France, whose financial policy was strongly influenced by Leon Say, to have at its disposal the greatest gold reserve of any country in Europe.

Say's budgets even showed surpluses, and the indemnity of 5,000 million francs, whose last instalment (amounting to 3,000 million francs) was due on March the 2nd, 1874, was paid much more rapidly than, for military reasons, the victor altogether liked. From 1878 the collection of taxes proceeded satisfactorily and punctually. A hundred million francs were paid into the savings bank, a start could be made with the repayment of the sums lent by the Banque de France, and the Stock Exchange was in a bullish mood.

VIENNA

THE PRIVATE BANKS—ESCOMPTE GESELLSCHAFT—THE VIENNA ROTHSCHILDS AND THE CRÉDIT MOBILIER

DOWN to the middle of the century Vienna was only of very slight importance financially, and rejoiced when it could find someone willing to lend it some money. The need for a finance institute was so small that besides S. M. von Rothschild who, after the collapse of Fries & Co. and the suicide of their partner, David Parish, occupied the leading position, there were only Arnstein & Eskeles, Simon G. Sina, D. Zinner & Co. and J. H. Stametz who were of any importance; these few bankers amply sufficed. In 1855, however, the year of the boom, Vienna also heard the topical call for increased sources of credit, but the longing for a bank modelled on the pattern of the Paris prototype still remained unfulfilled.

There existed the "Aktienverein in Wien zum Zweck dem Handel und den Gewerben Nieder-Oesterreichs durch Escomptierung von Wechseln Geldmittel zu beschaffen" (Association, limited by shares, in Vienna for the purpose of procuring monetary resources for the commerce and the industries of Lower Austria by means of the discounting of acceptances)—actually the complete and exact name of the first Austrian credit institute—but this establishment only dated back to 1853. Just as it would have been impossible, even for the greatest optimist, to foresee that Hansemann's two years older and somewhat similar Creditverein in Berlin would grow into the future Disconto Gesellschaft, so none of the initial backers would have dreamt that by 1864 this small provincial Austrian establishment would

have become a regular bank and, under the name of Niederoesterreichische Escompte Gesellschaft, run for very many years with extraordinary business acumen and efficiency by Max Feilchenfeld, a German, would one day enter the ranks of the leading European banks.

Its initial activities were confined within a very narrow scope, and by no means produced the far-reaching results achieved in other countries by a senior joint-stock bank. These were reserved for the immediately following establishment, for the Austrians were at last to see the fulfilment of their longing for a great credit bank—at the hands of the Rothschilds and not, as had been anticipated, of the Pereires.

The Crédit Mobilier had been formed with the clearly defined object of competing against the predominant influence of the Rothschilds; an onslaught on Pereire and his bank on the floor of the Stock Exchange could have been engineered, and it might have been quite easy to bring about his downfall a few years earlier than it eventually took place of its own accord. At Pereire's back, however, stood Napoleon, and "young James," who in the meantime had got well on the wrong side of sixty, took good care not to provoke him.

In the case of the Darmstaedter Bank the anti-Rothschild tendency was not openly expressed, but was present as an undercurrent; with its help a direct attack was made on the original house at Frankfort where the weary eighty-two year old Amschel Mayer, the senior of the Five Frankforters, was still, although during the last few years only nominally, in charge of affairs. The old gentleman died in 1855, the same year which carried off Carl, in Naples, and Solomon, in Vienna. The management of the Austrian house passed into the hands of Anselm,[1] the son of the deceased, an

[1] Anselm's wife, Charlotte, a daughter of Nathan Meyer, spent but few years in Vienna and then returned to London. Two of her children also soon tired of Vienna and settled in London: Alice, who lived at 148 Piccadilly, and whose house at Grasse was often visited by Queen Victoria, and Ferdinand de Rothschild (married to a sister of the three brothers Nathaniel, the first Lord Rothschild, Alfred and Leopold) who through his Waddesdon bequest became one of the greatest benefactors of the British Museum.

After Anselm's death Albert became the head of the Vienna House. One of his sons, Eugen, is the owner of Schloss Enzesfeld.

awkward character, difficult to get on with, but nevertheless, although he was the third of the line, an eminent and shrewd financier, in whom prudence and a spirit of enterprise went hand in hand, and who was considered incapable of taking over and managing the great inheritance by only one person —his own father.

Actually it was Anselm von Rothschild who with great acumen and efficiency prepared to deal a smashing blow at joint-stock banks in general and the Crédit Mobilier in particular. That this assault should proceed from Vienna was not merely the result of youthful buoyancy. From the shores of the Blue Danube developments in Paris had been watched with the utmost attention, and it was ascertained that Pereire had in fact gathered into his own hands a vast mass of international business; observation turned to impatience when he succeeded in the New Year's Night from 1854 to 1855 in acquiring the majority share holding in the Austrian State Railway,[1] and the final decision was made when in March of that year the shares of the Crédit Mobilier experienced a marked rise owing to a rumour that the bank intended to open a branch in Vienna.

In the hands of Baron Anselm the defensive measures became a strong instrument of attack, and brought about a further increase in the power of the Rothschilds.

[1] See page 157.

INTERNATIONAL INTERLUDE

1855—RUSSIA—ITALY

THE year 1855, which was to bring to Vienna the fulfilment of its extravagant desires, and which accordingly came to be of epochal importance for Austria, constituted also a turning point for the whole of financial Europe.

Although the actual conclusion of peace, the Treaty of Paris, was delayed until March, 1856, yet to all intents and purposes the Crimean war was over, and the victory was celebrated by the armies which had fought on the Russian Peninsula, and still more enthusiastically by the speculators who had remained at home. Everywhere new promotions were effected, at times to an even greater extent than in France in Germany, where development had not been hampered by the war.

It was in the period towards 1855, during and after the Crimean War, that, after many starts, the first of which occurred in 1815 after the battle of Waterloo, finance became really international.

Russia aroused herself, at least partially, from her indolent lethargy, and the Government began to encourage commerce and industry at home. In St. Petersburg Baron Ludwig von Stieglitz[1] and his bank possessed a kind of monopoly, and by means of loans to all classes of the people, even very exalted ones, they had acquired considerable influence and thus were in a favourable position to make it impossible for any other bank, however keen on business, to obtain a footing in Russia. Even Rothschilds, who decidedly had

[1] Baron Ludwig von Stieglitz (died 1843) was succeeded by his son, Alexander, likewise a banker of wide abilities and great achievements. He dissolved the firm in 1863, about twenty years before his death.

no very great affection for the Czarist Empire, but who held that business is business and put forth the greatest possible efforts, were, in the beginning, doomed to failure here, although they tried to induce Alexander of Hesse,[1] the brother-in-law of the Czarevitch, to intercede for them. The Emperor Nicholas I insisted that no bank which received its instructions from abroad, should carry on business in Russia. Subsequently, after this obstacle had been removed, Robarts, Lubbock & Co. sponsored the English & Russian Bank, which, however, met with little success, although it received the grant of a charter in 1863.[2] For not quite a century, calculated from the raising of the 5 per cent loan in 1822, Russia remained for the most part the happy hunting ground of the Paris haute banque and its largest, and most unremunerative, debtor.[3]

When Italy conceived the urgent desire to attract capital to the country, Cavour looked—and not in vain—to the City of London. His country had found many sympathisers in its struggle for liberty; just as in 1825 Canning had aroused the feelings of the democrats (and the enterprise of the speculators) with the clarion call, "Deliverance from an alien yoke," so now Lord John Russell invented the slogan, which became tolerably popular, "Italy for the Italians." At the same time, however, the summons to liberate Hellas from the yoke of the bloodthirsty Turk met with a far greater response than the invitation to deliver Lombardy and Venice from the Austrians.

As far back as 1851 C. J. Hambro & Son (since 1921 known under the name of Hambros Bank) had made to

[1] Marie of Hesse, his sister, had married the subsequent Alexander II.—Alexander of Hesse married Countess Julia Hanke, who afterwards received the title of Princess of Battenberg; she is the ancestress of that Hesse collateral branch.

[2] The date is significant: in 1863 the Stieglitz bank went into liquidation.

[3] In 1917 the following Russian loans were repudiated:—

External loans	£737,988,972 principal
Railway loans and Guarantees	65,214,580 ,,
Other obligations	121,387,688 ,,
Municipal loans	20,222,522 ,,
	£944,813,762 principal

To this must be added a further £850,000,000 in Treasury Bonds, issued as cover for advances made by the Allied Powers during the Great War.

the Kingdom of Sardinia, the nucleus of the subsequent united Italy, a loan which, while it did not secure the independence of the country from the Hapsburgs, did release it from its dependence on the Rothschilds, who had demanded very stiff terms; with the proceeds of this loan the capital Turin obtained a railway. Charles Laffitte, in Paris, with considerable assistance from England, promoted the Vittorio Emanuele Company, which connected the systems of Lombardy and France, and this "peaceful penetration" turned out a great success in 1859, as the French troops, to drive out the Austrians, were able to march into the plains of the Po much more rapidly than would otherwise have been possible, and at Magenta and Solferino they laid the foundation stone of the political unification of the Appenine Peninsula.

The Hambro Loan had not gone very well, and for the time being the bankers were left with £1,400,000 (out of the £3,600,000 offered) on their hands, which gave James de Rothschild the opportunity for the clever phrase, "l'emprunt était ouvert, mais pas couvert." All the same, in the end Hambros made a good deal of money, for they were able to get rid of their holdings at appreciably higher prices.

After this initial failure the market was not particularly anxious to burn its fingers again, but the very shrewd Cavour knew how to make friends in London and Paris, and he sent fifteen thousand men to the Crimea. Austria had considered the question, but Italy acted. Palmerston was grateful, and Victoria held the view that "it must be our object and interest to see Sardinia independent and strong," and accordingly Vittorio Emanuele—"he is eine ganz besondere abenteuerliche Erscheinung, startling in the extreme in appearance and manner" the Queen reported to Uncle Leopold—was in 1855 invited to Windsor, where il re galantuomo was invested with the Garter. With him came Cavour, who had composed the speech which the exalted gentleman read in reply to the homage of the

Corporation at the Guildhall, and now Italy had secured, never to lose it again, the card of admission to the City of London in general and to Lombard Street in particular.

British labour became international; British capital, as we shall see, promoted on the Continent banks after French models. British steel was used in American Railways and also for guns which anyone might buy who was in a position to pay for them, and as payment (and not only for the guns) was often made in bonds of the purchasing countries, the turn-over on the various Stock Exchanges became international too.

A new millennium seemed to have dawned—and yet it would appear that in spite of all the wonders achieved the final result of the international trade, the international finance and the international loans was that Vickers guns fired at guns from Vickers, Krupp guns at guns from Krupps, Schneider-Creusot guns at guns from Schneider-Creusots, and on occasion the guns firing on one side or the other were not even paid for, because the loans granted for the purpose were in default.

To envisage, as early as 1855, this state of affairs in a kind of inverted Utopia is more in the nature of a forecast than a description of facts, and calls for an apology on the part of the author who could not withstand the temptation.

AUSTRIA

I

THE CREDITANSTALT

FORMERLY railways had been the fashionable investment in Europe; now (and again in the early 'seventies) it was the turn of the banks. Whenever a new one was established, force had to be used to restrain the vast crowds which "with tremendous, oft-repeated urging" pushed their way "onward through the narrow gate of grace" which led to the subscription lists.

Greater excitement than on any other occasion reigned in Vienna on the 12th December, 1855, when Rothschilds invited subscriptions for shares in the Creditanstalt. As much as a florin was paid for an application form alone (the same thing happened in London forty years later in connection with one of the many increases of capital of Rhodes's Chartered Company). Just as now, eighty years later, people queue up when a film star makes a personal appearance, all night through they were lining up at the doors, and when in the morning the gates were opened, the early comers were in serious danger of being suffocated and trampled upon. The result by the evening was that for the 15 million florins worth of shares offered, more than 644 million florins had been subscribed.

Hardly ever can a bank have been founded with greater hopes and expectations. People looked to the Creditanstalt to do almost everything that could be done in matters of finance: the new bank was going to be the concentrated capital power and credit power of the country, and quite

especially great were the boons which the Austrian industrialists anticipated from it; "everyone believed that the golden age of cheap credit had come, and everyone flocked up to be among the first to receive the blessings which were to flow from the hands of the Creditanstalt and its managers." The imagination of some even went so far as to urge that all other limited companies should be merged in the young establishment.

The new bank refused most energetically to be in any way compared with the Crédit Mobilier, but it will be obvious at the first glance that there were two fundamental similarities. As the French Government had done three years previously, so now the rulers in Vienna expected "not merely the quickening of the inexhaustible resources of the country, but also the relief of all the requirements of the State," and if we look at the list of the promoters' names, which again includes a Haber, Louis von Haber, it will at once strike us that in Vienna also the greatest possible importance was attached to the co-operation of the high aristocracy.[1] If we are somewhat justified in assuming that neither in Paris nor in Vienna those exalted persons exercised a particularly great influence on the management of affairs, yet at the same time we must not underestimate the great financial resources represented by the enormously wealthy Austrian territorial nobility.

A second authoritative council consisted of the Board, whose constitution was appreciably more democratic. In intimate business association with such ancient names as that of Prince Schwarzenberg (as President) and of Count Zichy (as Vice-President) we find Anselm von Rothschild (as a further Vice-President), Jonas Koenigswarter (the father of Moritz von Koenigswarter), Eduard Wiener

[1] By a decree of the Minister of Finance dated the 6th of November, 1855, the concession for the establishment of the bank was granted "to Max Egon Fuerst zu Fuerstenberg in his own name and in the name of Johann Adolf Fuerst von Schwarzenberg, of Vinzenz Karl Fuerst von Auersperg, of Otto Graf von Chotek and of Louis von Haber, further to the banking house of S. M. von Rothschild of this town for itself and its branches, and to the banking house of Leopold Laemel in Prague."

(subsequently Wiener von Velten) and Leopold von Wertheimstein, who in about 1840 had at the instigation of Solomon gone to New Court to study English railway management, and who together with Moritz (von) Goldschmidt had been appointed to the Board of the Bank to represent the Rothschild interests.

When the Creditanstalt began operations, a miracle happened such as had never yet been witnessed in Austria: for the first time in the country of the Danube Phaeacians an undertaking had more money than it wanted. To the shareholders the first ten years of the bank proved a disappointment as they received during this period an average dividend of only 6⅛ per cent, no great return in a country where the ordinary investor could reckon on a higher rate of interest from the securities of his own Government. Although from the very start this bank attended properly to its regular banking business and in spite of efficient and experienced management it also in the early days overestimated its strength. By 1866, when the war with Prussia broke out, it had got into considerable difficulties.

Subsequently, however, the Creditanstalt obviously and deliberately altered its course and grew to be one of the first and strongest money powers of Europe; the international reputation and affairs it gained was hardly once attained by any of the great German banks, and its acceptances enjoyed a distinction which were possessed as a rule only by the signature of the great and eminent private banks. This provides an additional cause for regretting its grievous end.[1]

[1] A short sketch of the collapse of this great institution will be found in the chapter headed "The Twilight of the Gods."

II

ANGLO-AUSTRIAN BANK—VIENNA AND PARIS—BODEN KREDIT ANSTALT—WIENER BANKVEREIN—THE GRUENDERZEIT—MAGNATES—THE KRACH OF 1873

EVEN after the establishment of the Creditanstalt a country like Austria continued to offer a promising field for financial activities. Although it might not possess much capital, yet there were possibilities of industrial development; attempts were made, frequently very serious, more rarely successful, to bring some order into the bad financial position and the still worse currency: in short, money could be made in and out of Austria. Glyn, Mills & Co., grown very enterprising under the management of George Carr Glyn, emerged at the head of a group of English capitalists, and on January the 4th, 1864, the *Anglo-Austrian Bank* opened its doors. As might be expected from a financial house under English influence, special attention was paid to current banking business, and very soon the appearance of a healthy and successful competitor was noticed everywhere, even the Creditanstalt feeling its effects. At a time when the latter was paying dividends of only 5, 4½ and 5 per cent the Anglo-Austrian was distributing 8½, 8 and 9 per cent—a truly excellent result.

Very soon, however, it became apparent that the activity indicated by the clause in the Articles of Association—"the Bank is established for the purpose of facilitating and promoting financial and commercial relations between England and Austria"—did not suffice to employ the resources of the bank to the full. It departed more and more from its original sphere; in conjunction sometimes with

Barings, it issued loans; it sponsored new railway ventures, and introduced the Turkish Lottery Bonds,[1] the first foreign Government security to be quoted on the Vienna Stock Exchange—in other words, the Anglo-Austrian Bank drifted more and more into the practice of a Continental mobilier bank. All these and a number of other grandiose transactions enabled it to pay, from 1867 to 1872, dividends of 35, 76⅔, 31·84, 15, 17 and 25 per cent, almost impossibly high rates for a bank. Before the slump it made its full share of worthless promotions, but came through the Krach quite well, and as the result of that baptism of fire came to be a bank of international reputation.

After the Great War (the Austrian branches passed in 1926 into the hands of the Creditanstalt) this bank, now a purely English institution, did not bring much joy to its shareholders. It amalgamated with the British Trade Corporation, and in 1926 the Anglo-International Bank[2] came into being.

The especially intimate financial relations which existed during the second half of the past century and well into the present one between Vienna and Paris had their origin in the historic acquisition of the Austrian State Railway shares by the Pereires; they were further strengthened by the activities of the Creditanstalt, attained their prime in 1863 when the *Boden Kredit Anstalt* was formed, and were infused with new life by Bontoux when in 1882 he tried once more by means of his Union Générale and its Laenderbank to conquer Austria financially in the interests of France. After the promotion of the Boden Kredit Anstalt (in connection with which we again meet the good old names of Louis and Samuel von Haber, Isaac Pereire and Simon G. Sina) there was even talk of an entente cordiale between

[1] See page 322.

[2] Until his death in January 1937, the managing director of the Anglo-International Bank was Sir Peter Bark, the last finance minister of the Russian Empire. In 1919 he settled in England, subsequently became very prominent in banking affairs, and in addition to a considerable number of Continental banks was on the board of the Banque des Pays de l'Europe Centrale, formerly Laenderbank, which is more fully referred to in the succeeding chapter.—In March, 1935, he was knighted, having duly become a naturalized British subject the preceding day.

it, the Foncier Autrichien, and the Crédit Foncier, the French prototype.

This new bank, a mortgage bank, was at a time of excessive speculation also not satisfied with the good results arising from its real object or from its current banking transactions; it came to the conclusion that it could no longer escape the urge towards the Stock Exchange (nor was it particularly anxious to do so); but as its Articles of Association did not sanction either financial or promotion business, a crédit mobilier bank pure and simple—that is to say, a bank for the purpose of speculation—was called into being in 1864, the *Wiener Bankverein*, whose management remained in the hands of the Boden Kredit. The climax of the unnatural association between two so fundamentally different institutions was reached in the year 1872, when the parent establishment paid a dividend of 26¼ per cent, not exactly a low rate for a mortgage bank, whilst the speculative subsidiary bank distributed 80 per cent. The Pereires had indeed found pupils who far outstripped their masters. The main risks of such inordinate speculation (and the crisis was already on the way) had of course to be borne by the much stronger Boden Kredit, whose reserves were swept away when panic broke out. For five years the shareholders received no dividends whatever, and those of the Bankverein did not, during the whole of the next ten years, together amount to the rate paid in the year before the great Krach.[1]

The aristocratic disease of a bank crisis, which can only attack countries with a highly developed credit system, broke out for the first time in the Austro-Hungarian Monarchy in 1873; and in this way the country became entitled to be included in the ranks of those of commercial importance. All the speculators and promoters of Europe, first and foremost those coming from Germany, chose the shores of the Danube as their meeting place.

[1] After the ruinous gales of the war both the Boden Kredit in 1929, even before the Bank crisis, and the Bankverein in 1934, were given silent burial within the reconstructed Creditanstalt.

In Germany even the nobility doffed its aristocratico-conservative reserve, and played its part in the Gruenderzeit (promotion period). Not that any outstanding achievement ever materialised in those quarters, comparable with that of the Duke of Bridgewater, "the first great Manchester man," who exactly a hundred and thirteen years previously had constructed the Canal bearing his name; they merely afforded a welcome and highly remunerative cover to promoters who used their exalted names as advertisements. They did not understand the first thing about business, but they had their uses in the promotion of railways, for the granting of a concession is always mainly dependent upon good connections.

It remains Eduard Lasker's[1] great merit that from his place in the Reichstag he spoke wise words of warning against the Promotion swindle in general, and against misleading the public, by printing great and august names on the prospectuses of new ventures. His warnings did not fail in effect; at the request of the Chancellor the Bank of Prussia (subsequently the Reichsbank) intervened by restricting credit in outrageous cases, and when the speculators found too many obstacles in their path in Berlin, they chose Vienna as the scene of their activities, where the National Bank of Austria (the future Austro-Hungarian Bank), in an inexplicable infatuation, went out of its way to assist them and made considerable advances on securities without security. As had happened seven years before in the struggle for predominance in Germany, Austria again became the victim of Bismarck's policy, this time on the field of finance.

Full-pressed and brimming over was the measure of the sins committed in Vienna itself. Nothing had been done for several decades in the matter of development, and now it seemed to the gentle and volatile Austrian temperament that the delay could be retrieved in a few years; all of them, bankers and banks, shared to the full in the guilt of the

[1] Strousberg, the group of Princes and the Roumanian Railways, see page 109.

Witches' Sabbath. Amongst the very few who took absolutely no part were the Rothschilds.

A bank mania broke out, not only in Berlin,[1] where the indemnity received from France inflamed all minds, but in Vienna as well; building societies assumed the form of banks; banks for company flotations (Gruenderbanken) sprang up, and even for the purpose of stock-broking banks (Maklerbanken) came into being. In Vienna, which in 1855 rejoiced in the fact of having at least one bank, the Creditanstalt, no less than 63 banks were established between 1867 and 1873, as well as a further 66 in the provinces. In 1867 a mere 900 boursiers sufficed to cope with the turnover in 152 stocks and shares; four years later 3,500 members were dealing in 605 different items.

If the crisis had occurred in 1872, when it was in fact due, the disease would have run a more normal course. But silently a kind of moratorium had then been declared: no contretemps, no excitement must be allowed to crop up, for the Great Exhibition, which was to be the crowning point in the celebrations of the twenty-five years' jubilee of the Emperor Francis Joseph, was about to open its doors; it was expected to prove the salvation of them all, but unfortunately turned out an utter failure. For a few months Vienna was to be the cynosure of the whole of Europe: but the attention it attracted was very different from that intended. Hotels, cafés, places of amusement, arose in such numbers that it must have been obvious to everyone of ordinary thinking powers that they could not possibly pay for themselves during the limited period of the Exhibition, whilst they were far in excess of anything required in ordinary times. If matters had stopped there it would not have been so serious, but the promotion fever infected the whole of the financial world.

On May the 1st, 1873, a day of the worst possible depression on the Stock Exchange, the International

[1] In Prussia alone the capital invested in new promotions during 1872 amounted to M.1,521,354,527 (£76,067,000 at par) of which banks accounted for M.227,307,150 (£11,360,000 at par).

Exhibition was opened. Misfortune now followed on misfortune with lightning rapidity. On May the 5th the slump began; the bank conference summoned for May the 7th led to nothing, whereupon on the next day share quotations dropped by more than three hundred million florins[1] and a hundred bankruptcies became known in the House. From May the 9th despair and chaos reigned, and on May the 15th the dreaded settling day, the funeral bell which announced the declarations of insolvency never ceased tolling, and the Press was filled with the tragic accompaniment of all panics—reports of suicides.[2]

Hand in hand with the excitement, fraud had risen to an even greater level than usual; to make a profit on promotions and issues was the main consideration; the question whether the new venture had the strength to survive or any chance of development was a purely secondary one, and even where the shares so eagerly bought by the public did not represent an obvious swindle, they were half water. "Morals are not on the agenda," was the reply with which the Chairman of a general meeting curtly stopped the inconvenient questions of a shareholder.

The whole of Austria's youthful financial structure collapsed, and not till 1876 had the share market touched rock bottom. If we take the shares of the Creditanstalt as an index, they fell from 339, their highest point before the crisis, by the end of 1873 to 196, and by the end of 1876 as low as 105. To show how far reaching and how lasting were the consequences of the crisis we may mention that in 1872 there were in Austria 710 limited companies, of which in 1885 only 414 were left; and it required in all

[1] A few examples may be given of the drop of individual shares from the outbreak of the crisis to the end of 1873:—

Creditanstalt	from fl.339 to 196;
Anglo Austrian Bank . . .	from fl.316 to 107;
Wiener Wechslerbank . . .	from fl.372 to 0;
Wiener Maklerbank . . .	from fl.267 to 0;
Wiener Bankverein . . .	from fl.130 to 13.

[2] During none of the previous crises had there been so many suicides, and in the end they were no longer confined to Stock Exchange circles. A kind of suicide epidemic infected all classes of the population, and even the famous General von Gablenz became its victim in 1874.

twenty-seven years, before in 1900, the number of stocks and shares quoted on the Vienna Stock Exchange again reached 615, roughly as many as there had been in 1873.

Quite independently of the Krach in Vienna a still greater crisis occurred in the United States, where far too large a proportion of capital was invested in railways, and as a result all the banks (Jay Cooke & Co. at the head of the procession) suspended payment, at least for a time.

In England the crisis had comparatively little effect. The aftermath of the Overend catastrophe had passed, and the country had escaped the ravages of the four wars which visited the Continent. Accordingly the early 'seventies saw a cheering period of revival. Well-informed and careful observers of the mysterious fluctuations of the Bank rate (in the course of 1873 it had been changed twenty-four times, rising from 3 per cent in August to 9 per cent in November) had long become suspicious and cautious; and therefore the event which occurred without the slightest preliminary symptoms on November the 19th never developed into anything worse than a mild crisis, as there had been nothing in the way of over-speculation. Subterraneously, however, the rumblings went on, but there was no explosion till 1878, when the City of Glasgow Bank crashed.

Vienna, on the other hand, was never able fully to recover from the consequences of the year of terror, 1873, and was less than ever able to do so after 1882, when the collapse of Bontoux and his Union Générale in Paris completely destroyed any slight signs of convalescence.

EUGÈNE BONTOUX

UNION GÉNÉRALE—AUSTRIAN LÆNDERBANK—(NATIONALBANK FUER DEUTSCHLAND)

THE exceedingly favourable state of the market throughout France in 1878 was used for the furtherance of his schemes by

EUGÈNE BONTOUX

Like Pereire a well informed railway expert, like him also he was originally in the employ of the Rothschilds, who, however, had little cause to congratulate themselves on the business which he brought to them.

After being for a while engaged on the French railways, he went to Austria, first to the State Railway, then to the South Austrian (Lombardo) Railway—the latter an important company which, even after it had lost in 1859 the Italian lines, still possessed a capital of more than half a milliard florins. During his period of office as its general manager, however, he made such bad mistakes that early in 1878 he was compelled to hand in his resignation, and this brought with it the abrupt ending of his valuable friendship with the Rothschilds.

This set-back by no means hampered the indefatigable energy of Bontoux; by the end of the year he had managed to find fresh fields for his activities, and had succeeded in constituting a bank, the *Union Générale*.

Its founding saw no formulation of new ideas nor the promulgation of epoch-making programmes; not even an ingenious swindle had been stage-managed. It is surprising how easy it is to acquire a following if only you go on telling people what they want to hear and from its

first day the bank was nothing more than an act of stupidity. The prospectus stated that it was imperative to induce France again to take part in great international transactions, and to free the country from the ruling clique of Freemasons and Jews; it hinted discreetly that the Pope had given his blessing to the new venture, and by this the support of the Faubourg St. Germain was assured. All the clerical, royalist and reactionary elements in Paris, that is to say everybody who was dissatisfied with the status quo, gathered enthusiastically round the banner of Bontoux.

At the outset the affairs of the Union Générale went swimmingly; it took up the construction and financing of several Serbian and Hungarian railways. Just as in Paris Bontoux had succeeded in rallying the malcontent Legitimists around him, so in Vienna, where people liked to hear again and again that financial relations with Paris must become closer, he met with a favourable reception. When very cleverly and very quietly he insinuated that the time was ripe for another hit at the Rothschilds, he knew that he could rely on the support of the aristocracy—that same aristocracy which, exactly five and twenty years before, had founded the Creditanstalt in conjunction with them and made vast sums of money out of it. The result of the wooing was the concession granted by the Imperial and Royal (Kaiserlich-Koeniglich) Government for the foundation of a new bank which accordingly was entitled to bear, and did bear, the name of Imperial and Royal Privileged Austrian *Laenderbank*. Bontoux knew how to exploit this dignified but actually meaningless appellation; and he made his Paris shareholders believe that the new venture, the "Banque Impériale de l'Autriche," would be principally engaged in business with the Government.

Now that he had two financial institutions at his disposal—the Bohemian Union Bank and the Hungarian Laenderbank were added later—speculation on an extensive scale began. To follow all the ramifications would be both superfluous and wearisome; it is sufficient to state that in November,

1881, the 500-franc shares of the Union Générale stood at 3,000 francs, and at the general meeting Bontoux had made the statement that the bank itself held not a single one of them. That this was untrue was proved when on January the 30th, 1882, the bank's doors were closed and it was ascertained that twenty per cent of the share capital then lay in the portfolio of the Bank. A thorough examination showed that the Union Générale had carried on business and paid dividends solely on its agiotage transactions and promotion profits.

By refusing to come to the assistance of the parent institution in its hour of need the Laenderbank had saved its own life, but at the same time had lost a great part of its great reputation, and the collapse of Bontoux had shaken Austro-Hungarian finance to its foundations. It was only gradually that it succeeded in getting over its consequences; about the turn of the century the Laenderbank had regained some of its old standing, but it sank again as the result of unpleasant events connected with its London branch established in 1904. The great war robbed it of many valuable connections, and at present it carries on, under the name of Banque des Pays de l'Europe Centrale, a modest existence in Vienna and the Austrian provinces, and also in Paris where the old Laenderbank itself formerly owned a most flourishing branch.

Whilst still forming part of the Bontoux concern, the Laenderbank had founded in Berlin in 1881 the *Nationalbank fuer Deutschland*, whose history, together with that of the Danatbank which absorbed it, is told in the Chapter Darmstadt.

Bontoux escaped retribution by a timely flight abroad; during his stay in Venice he tried to promote various kinds of businesses, but he was a broken man. His book *L'Union Générale*, which appeared in 1888, was not in any way an apologia pro vita sua; in its pages he supplied those already convinced with clear proof that his collapse was due to nothing and nobody but the all-powerful coalition between the Freemasons and the Jews.

A CHAPTER WITHOUT A HEADING

EXPOSED to long persecution for their religion's sake and accustomed to look upon harsh treatment as a tribulation without offering—or indeed being able to offer—any resistance, they went through a hard school for many generations and learnt calm and prudence. Prejudice on the part of others excluded them from the liberal professions, even from sport, and their own objections to taking an oath which was in conflict with their convictions rendered them incapable of holding even the most unimportant office. It was but slowly, after the passing of the Reform Bill, that all these obstacles vanished.

In view of their pariah position, the inherited gifts and the education of their children were concentrated solely on religion and business; nothing could keep them from the practices of their faith, and no prospective profit, however high, could influence them when the hour of the Sabbath called to worship. The same high standard which ruled their private and intimate family life governed their business transactions, and their principles precluded expensive tastes. They were intelligent, diligent, and above all—for this is the inheritance of a persecuted sect—cautious. The habit of having always to be prepared for anything compelled them to exercise the greatest possible prudence, and consequently to be constantly solvent, a quality indispensable in a manager of other people's money. Inculcated self-restraint and discretion turned them into reliable advisers on financial secrets and good merchants. In constant activity they were ever on the look out for new possibilities of extending their business; they did not wait for the

customer to come to them: they sought him out or sent to him, and in this way, by stages, the fraternity of commercial travellers came into being. Trade, commerce, industry and traffic received new ideas from them, and they found large sums for the purpose of carrying them into practice. They became the founders of modern banking (and of modern philanthropy).

For children to marry outside the faith was a not very frequent occurence; any one so doing deliberately excluded himself from close communion and inter-marriage prevented the dissolution of great wealth.

In this way vast fortunes were made solely by accumulation. Round about 1670 the ancestor of a great family and founder of an extensive house began with £20,000; his grandson left £100,000, and his grandson in turn wound up in 1850 with £800,000, finding this increase, as he records in his diary, "most singular."

It was Samuel Gurney who considered this growth so singular, and this chapter deals with the Quakers.

In almost every department of life the Quakers have acted as moving and leading spirits. Two centuries ago James Cook was helped by them, and the very visible result of this was that after the opening of the Arctic, the capture of whales made possible the extraction of oil for the lighting of the London streets. At a time when much abuse prevailed in the dispensing of drugs, a reliable firm (Allen & Hanbury) stood at the head of the chemical trade; cotton and weaving factories owned by Friends increased in number and importance in the Midlands; in the production of cocoa, chocolate and biscuits (Cadbury, Fry, Rowntree, Huntley & Palmers) and of matches (Bryant & May) they became prominent. Home brewed ale yielded pride of place to the beers made on scientific principles and in the best technical style (by Whitbread, Barclay & Perkins, Truman, Hanbury & Buxton); in Mincing Lane, at Lloyds (Friends' Provident) and in Throgmorton Street (Foster & Braithwaite) their activities

as agents were as highly valued by customers and professional colleagues as from 1839 the reliability of the time-tables of Friend George Bradshaw. In addition to many others, we find amongst the leading bankers the Quaker families of Barclay, Bevan, Tritton, Freame, the Alexanders, Bouveries, Hanburys and Gurneys, and the great Lord Overstone.

The exceedingly fascinating and absorbing activities of a sect, actuated on the one hand by a most profound religious feeling, on the other by the clearly defined and highly developed talent for making money, can only be rapidly surveyed within the scope of this chapter (but perhaps it may be permitted to the author on a future occasion and in another connection to go into them in more detail). But special emphasis must be laid on the fact that the Quakers, together with two other vital types, the Parsees and the Jews, invented and introduced "indebtedness by book-keeping"—credit, that mighty instrument on which commerce is founded to-day.

In the nineteenth century Friend Thomas Richardson devised the modern system of bill discounting, and the firm founded by him under the name of Richardson, Overend & Co., which subsequently became Overend, Gurney & Co., could for several decades "rightly claim to be the greatest instrument of credit in the Kingdom."

OVEREND, GURNEY & CO.

THOMAS RICHARDSON—THE GURNEYS—BILL-BROKERS—CREDIT AND SUSPICION—BLACK FRIDAY

THOMAS RICHARDSON received his start in life from his cousin Edward Pease, the early railway pioneer, who found him a post as messenger boy at forty pounds a year with the Quaker-Bankers Smith, Wright & Co.[1] With this firm, where he started in so lowly a position, he rose to be manager, and he was subsequently for a time interested in firms[2] which specialised in the issue of rather doubtful foreign loans. Later still he was connected with some of the first railways, and finally, having long been a very wealthy man, he was able to assist his cousin and supplied Pease with the funds for subscribing for four of the ten shares[3] into which the initial capital of the Stockton & Darlington Railway Company, the first of such companies in England, was divided. The source of Richardson's wealth and influence must not, however, be sought in his excursion into the foreign market, which was more in the nature of a side-step, nor in the promotion of railway companies. He it was who invented the institution of the modern bill-broker, and he together with the Gurneys, put it into practice.

The Gurneys were a family of great antiquity whose ancestor, Hugh de Gourney, had come over with William the Conqueror and who in about 1300 possessed much influence and great wealth in Norfolk. This was followed by a period of decadence, and some of the members sank

[1] Smith, Wright & Co. had been founded in 1758 and in 1792 amalgamated with Esdaile & Co., q.v.

[2] See page 40, note 4.

[3] George and Robert Stephenson each owned two further shares.

to the rank of petty Norwich tradesmen, but a second ascent brought them into the forefront of the wool-trade business which in the second half of the eighteenth century they turned into a banking business; 1775 saw the formation of the Norwich Bank, around which in the course of time eight further banks[1] grouped themselves, all of which included "Gurney" in the firm's name.

After serving his apprenticeship with the Clothworkers' Company, Samuel Gurney (born in 1786) joined his brother-in-law, Joseph Fry (of Frys & Chapman, originally tea-dealers and since 1806 bankers), the insignificant husband of the great Elizabeth Fry.[2]

In his Norwich house John Gurney, the father, used a large part of his surplus money in discounting the acceptances of woollen merchants, and in this way had acquired an understanding of the principles and details of a branch of business which requires not only expert knowledge but also fine perception and thus peculiarly suited him fully to appreciate the far-reaching and novel schemes of Thomas Richardson.

Together with Overend, till then chief clerk with Smith, Payne & Smiths, Richardson had in 1806 founded the firm of Richardson, Overend & Co.; the business had started well, and the results of the very first year impressed John Gurney so favourably that in 1807 he sent his son, Samuel, to London to take a share in the bill-broking concern which soon took the name of Overend, Gurney & Co. Thanks to the new partner, who was a relative of the Barclays, the

[1] The widely diffused bank undertakings of the Gurney family should be clearly divided into two categories:—1. the London discount house which made history and with which this chapter deals; 2. the eight Norfolk houses which were amongst the total of twenty banks which in 1896 amalgamated under the leadership of Barclay, Bevan & Co. under the name of Barclays Bank (see page 366).

[2] Samuel Gurney had ten brothers and sisters, being the children of the liberal-minded, not to say easy-going John Gurney and his wife, Catherine Bell; amongst them were:—Daniel, banker, antiquarian and historian of his family. Joseph John, a Quaker minister who took a considerable part in the movement for Negro Emancipation, prison reform and the abolition of capital punishment. Hannah, married to Sir Thomas Fowell Buxton who as brewer was a partner in Truman, Hanbury, Buxton & Co. and as philanthropist continued the efforts of William Wilberforce. Elizabeth Fry, the great Prison Reformer, whose varied work was most liberally supported by her brother, Samuel, when, in 1824, her own means became straitened owing to the collapse of the Bank of Frys & Chapman. As to Elizabeth Fry and the other philanthropists of her day see the author's *Regency Pageant*, 1936.

Buxtons and the other great Quaker bankers, and who himself was a Gurney from Norwich, the youthful house at once gained an enhanced reputation, which grew still greater when Samuel married Elizabeth Sheppard and to his own considerable inheritance (John Gurney had died in 1809) added the vast fortune of his wife. He and Richardson, who retired from business in 1830 and died in 1853, made the most liberal use of their enormous wealth which increased from year to year; both of these Friends in Lombard Street had an ever open hand for all the humanitarian and charitable efforts of their religious community.

Samuel Gurney did not come much into the limelight of public affairs, but his wise counsel was ever at the disposal of those who consulted him; when in 1853 Gladstone seriously entered upon his financial studies he called upon Samuel Gurney to whom experience and character had given a high position. They discussed the coming Budget, and the young Chancellor of the Exchequer received the classic advice, "One thing I will venture to urge, whatever your plan is, —let it be simple."

His wife's death when he himself was nearly seventy, was a severe blow; the recovery for which he hoped to obtain from a stay on the Riviera did not materialise; his health grew worse, and as he was most anxious to die at home, he started on the return journey, but death overtook him at an hotel in Paris. The personal property which he left was valued at eight hundred thousand pounds, but it was generally thought that his real property and the settlements he had effected during his lifetime amounted to at least the same figure.

To-day the bill-brokers buy bills on their own account at a discount, borrow money on their own account upon their own security at interest, and make their profit out of the difference between discount and interest; they are not mere agents, but principals, and in addition they enter into competition with the banks which "like heroic mothers . . . go on supplying them with the food which gives them

the power to tear the maternal breast" with the banks' own money. They are "almost too important a factor," as Sir Felix Schuster put it on one occasion.

This was not always the case; originally a bill-broker was merely an agent who, for a commission, procured for country bankers the discounting of their bills in London. Not until the advent of Overend, Gurney & Co. did an innovation occur. This firm dealt in commercial paper in the widest sense of the term, and when they put the sellers thereof into touch with the purchasers, they for the first time charged the commission (in those days a quarter per cent), not, as had been customary, to the lender as remuneration for the trouble of having invested his money, but to the borrower whose bills were discounted. In this way the money-market began to assume its present form: a new departure in banking had begun.

But Overends soon outgrew even this sphere of their own creation, and attached importance to being no longer considered bill-brokers: "We are money-lenders," they said of themselves. But looked at closely, this definition is not quite correct; what they really did was to deal in credit—by borrowing they bought, by lending money they sold credit; they made currency for their customers. Although, curious to relate, legislation had overlooked this fact, gradually and imperceptibly the cheque had taken the place of the paper currency formerly issued by the banker; but it is impossible within the scope of this chapter to deal further with that subject, and we must now retrace our path.

Credit was on one occasion defined by Thomas (Tom) Paine as "suspicion asleep"; that there is far more truth in that witty saying than might be generally assumed was a fact which the Overends were soon to have to face in their own experience.

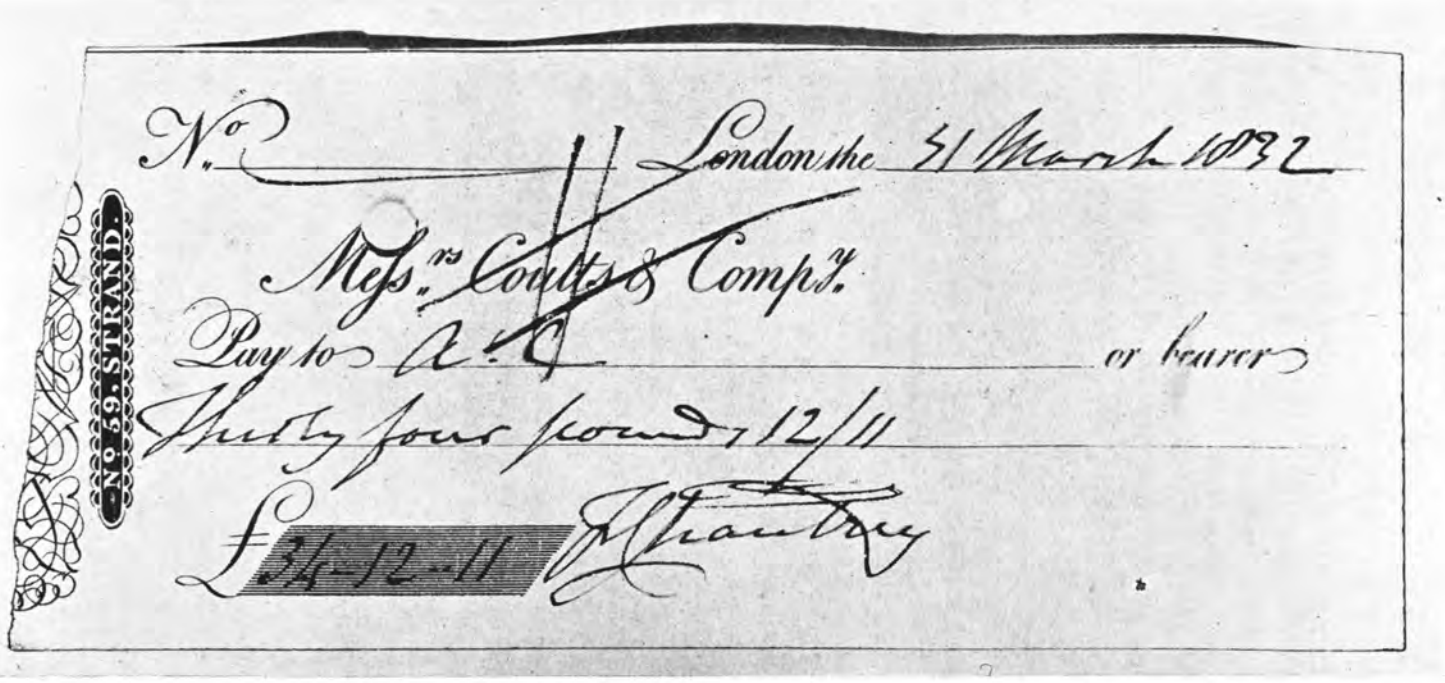
As yet their position in banking circles grew so strong that towards the end of the 'fifties the ascendancy was no longer in the hands of the old private banks, and it had not yet been concentrated in those of the joint-stock banks although

these were gathering strength; the great money power lay in the discounting houses, with Overends as their leader.

Nothing analogous existed in the money world. City houses no longer left their surplus cash with the Bank of England, but entrusted it to Overends, who also were above all suspicion, and in addition paid interest. They had in this way actually become the bankers' bank. "The City bankers prefer placing their money with the bill-brokers to investing it in exchange bills," wrote William Gilbart in 1859, and much earlier than this, in 1832, independence of Threadneedle Street had become so great that George Carr Glyn said before the Bank Charter Commission, "we do not feel the slightest dependence upon the Bank of England, nor do we feel the slightest obligation to it in any way." This was a boastful statement on the part of the first Lord Wolverton, and he lived long enough to appreciate that it had been an error of judgment.

A business so lucrative as that of Overends soon attracted competitors, but in the City of London there are many mansions, and almost every one of them prospered. Alexanders,[1] founded in 1810 by the Quaker William Alexander, were the first. Richard Sanderson, a clerk in Overends, established Sanderson & Co. which stopped payment in 1847, regained a considerable position as Sanderson, Sandeman & Co., and in 1857 failed again. Bruce, Buxton & Co. (Bruce & Co.) founded in 1825, passed through many vicissitudes, and eventually became merged in the United Discount Company, which in turn was fused, in 1885, with the Blount-Brassey General Credit & Discount Company and thereafter called itself the Union Discount Company. The last of the great bill-brokers, the National Discount Company, was formed in 1856 straightway as a public company, and was so soundly managed that even the events of 1866 were unable to affect it.

[1] Alexanders, Cunliffe & Co. remained until 1864 exclusively a family concern; in 1877 the name was changed to Alexanders & Co. which in 1891 was registered as a private and in 1911 as a public company. To-day they call themselves Alexanders' Discount Co. and are, together with the Union and the National Discount Co. the "big three" of bill-brokers.



[*Photo: By Courtesy of the Institute of Bankers*

THE DRAWER OF THIS CHEQUE ON COUTTS & CO. WAS SIR FRANCIS LEGATT CHANTREY, THE SCULPTOR, WHO BEQUEATHED HIS PROPERTY TO THE ROYAL ACADEMY (CHANTREY BEQUEST)

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Overends, however, remained by far the greatest of them all; of the fifteen and a half millions[1] on deposit with three bill-brokers in 1856, more than half was held by Overends.

They reached their zenith in 1859 when their profits amounted to the stupendous sum of £442,074; seven years later they had brought about one of the greatest catastrophes in the financial history of this country and the greatest in the nineteenth century. The story of this event is as interesting as that of their rise, but far more significant.

Their older generation had died out in the middle of the 'fifties, and from then on the firm was conducted by men under whose management the old proved principles were more and more disregarded at the expense of safety. In their search for high rates of interest money was lent on securities which offered none, and especially on second class shares. It is obvious that dealing in Trustee securities is not a business that will bring great profits; in order to make big money it is necessary to run correspondingly big risks, and the financier's "intelligence must make up for deficiencies in the armour of his security." Overends, however, had gone too far on this road, especially in view of their position as bill-brokers. Intelligence gave way to a folly which even "surpassed the usual limit of imaginable incapacity"; "a child who had lent money in the City of London would have lent it better," was the scathing opinion of the usually so restrained Walter Bagehot. They became decreasingly agents for the procuring of loans, and increasingly participants in the undertakings into which they put money. "They covered the seas with their ships, ploughed up the land with their iron roads"—no derogatory criticism of a company-promoting concern, but a most adverse verdict on a discounting bank, especially when uttered by the public prosecutor in the course of the subsequent trial.

After 1860 the situation became untenable: the securities deposited were no longer properly examined; legitimate acceptances gave place increasingly to accommodation paper;

[1] Sandersons' 3½, Alexanders' 4, Overend's 8 million pounds.

the firm floundered from one unfortunate transaction into another, and from 1861 on lost some £500,000 a year.

Not the slightest shadow of suspicion was ever cast on the Gurney family, who no longer took an active part in the management but were still represented in the firm by silent partners, nor was it ever said that they had consciously entered into dealings irreconcilable with their high principles; the charge, however, that they had not sufficiently troubled about what was done in and under their name was one which they could not refute. When, much too late, they learnt and realized how serious matters had become in London, they made a further and most peculiar mistake which was to have the most fateful consequences.

However great the losses incurred up-to-date might have been, they, the Norwich Gurneys, were so wealthy that they could have borne them, and they could have afforded to let them have "a quiet sleep in a hidden ledger." A new management ought to have reorganized Overends, and after a fresh start it would have been possible, out of profits and the personal reserves of the partners, slowly and above all invisibly to make good the old mistakes. Obviously it would have entailed an enormous risk, but to save all it is necessary to venture all. The many who have successfully negotiated a ride across thin ice have, in so far as their expedition has afterwards been discussed at all, been forgiven all their sins.

Unfortunately the Gurneys were not endowed with that intelligent boldness. What they did was in 1865 to turn their partnership into a company which took over the losses under the guarantee of all the former partners who, by some abstruse process of reasoning, debited the company with half a million for the goodwill which they brought it.

After a not too careful examination the losses had been put at £3,117,000, a figure which subsequently turned out to be too low. Even so wealthy a family as the Gurneys had to make proper preparations before it was able to raise so huge a sum; a beginning was made with the disposal of their private estates, and this brought about developments

which are significant beyond the particular case: the sale of the private estates started the ball rolling, and gave customers the first inkling that something was not in order. And not the losses, but the publicity ruined Overend, Gurney & Co.

A last attempt to merge in the National Discount Company this company whose intractable management had succeeded during the ten months of its existence in losing a further £1,400,000, was doomed to failure; in the former's Board Room the inexorable decision was made that "they would not give a half-penny for Gurney's goodwill." There was, therefore, no alternative but compulsory liquidation.

The situation was roughly as follows: the crisis of 1857, although fairly far-reaching, had not restored the business world to a sound footing, and many worthless undertakings, amongst them banks, had been kept going, though at some cost. And yet from 1864 bank shares in particular had risen considerably, not altogether without the lively assistance of the banks themselves, which, for reasons of prestige, found most welcome the sight of their own shares quoted at a high price. The consequences of the fall were correspondingly unpleasant. Perhaps for the first time, but decidedly not for the last, the main difference between banking and other trades appeared in its stark nakedness: if, for instance, the price of railway shares goes down, that is a matter which concerns only the shareholders (and those who have made advances on the security of those shares); the public at large would never dream of withdrawing its custom. But the customers of a bank react quite differently; the moment its shares begin to drop, they begin to think—and that is the first step on the downward road. That in 1865 there was already a certain lack of confidence is proved by the nervousness which prevailed throughout the year, during which the Bank Rate was changed no less than sixteen times.

The year 1866 started still more ominously; rumours, which were at first thought to be extravagant, but turned out not in the least exaggerated, attacked the reputation of the strongest houses. In order to defend its shrunken

gold reserve the Bank of England raised the rate of discount on the 3rd of May to 7 per cent, on the 8th and 9th each time by a further one per cent, and on the 10th of May "to sober down the speculative tendencies of the country," to a figure at which it had stood only once before (in 1857) and was never again to attain—to 10 per cent.

On the evening of the 10th of May, after banking hours, was spread the news that Overend, Gurney & Co. had stopped payment with liabilities approaching nineteen millions.[1]

The next day, May 11th, long memorable in the financial history of England as Black Friday,[2] the banks were besieged, and terror reigned in the City. Enormous falls in prices were recorded on the Stock Exchange; Consols, which had not dropped so low since the railway crisis of 1845, went to 84 per cent—English credit had sustained a severe blow. During the day the Bank of England granted accommodation in loans and discounts to an amount exceeding four millions. With justifiable pride it was able subsequently to record that "no legitimate application for assistance made . . . was refused" and that "no one who offered proper security failed to obtain relief." But as by evening the banking reserve had been reduced to close on three millions, there remained but one means of saving the situation to some extent—the suspension of Peel's Act.

The announcement was received in the City with cheers, and the news played a large part in mitigating the scare; the pressure ceased for the moment, and the characteristic feature of all panics was again displayed—the knowledge that enough money was available sufficed, and it did not become necessary to issue notes beyond the legal limit.

The panic of 1866 was the last really extensive one to sweep England during the past century—other countries were less fortunate—and produced for the last time the need to suspend the Bank Act, a course which was not resorted to even in the dark days of August, 1914.

[1] The exact amount of the liabilities was £18,727,915.

[2] Whitaker Wright's London Globe and Financial Corporation crashed on Friday, the 28th December, 1900.

But the after-effects of the crisis, which became world-wide, were far-reaching and of long duration. The immediate victims in England were thirteen joint-stock banks, amongst them the recently constituted English Joint-Stock Bank which had taken over Olding & Co., the successors of Welsh & Rogers, Samuel Roger's old firm. Sir Samuel Morton Peto, who incidentally erected the Nelson Column in Trafalgar Square in 1843 and who since 1846 had been in partnership with Edward Betts, had to look on while his firm of Peto & Betts, the greatest contractors apart from Brassey who was backed by Glyn, Mills & Co., collapsed; the result of this suspension was a further depression of the market in home rails which already had been badly hit.

No wonder if in Norwich, the home of the Gurneys, excitement was at fever heat. "Messrs. Gurney & Co. beg to inform their friends that their firm is not in any way affected by such stoppage" was the official notification published by the various banks, but the Mayor of Norwich also thought it advisable to summon a public meeting which expressed its "unbounded confidence" in the house and "unabated reliance in its perfect financial security." Various accounts which had been removed were in fact soon re-opened, and all eight banks survived the storm.

The directors of Overend, Gurney & Co. Ltd., had to appear before the Court; the actual trial began on December 13th, 1869, before Lord Chief Justice Cockburn. The case was very complicated and lasted nine days, on the last of which the defendants were acquitted, a verdict which was in complete accord with public feeling. They had no doubt acted recklessly, but were in no way guilty of fraud.

The clearing up of the consequences of the greatest failure that had ever taken place in England took many years; the creditors had all been paid off by the middle of 1870, but the final liquidation of Overend, Gurney & Co. did not take place till November, 1893.

THE FIRST GERMAN BANKS

GUSTAV VON MEVISSEN—DAVID HANSEMANN—ADOLPH VON HANSEMANN

A. SCHAAFFHAUSEN'SCHER BANKVEREIN—DISCONTO GESELLSCHAFT

THE Napoleonic Wars had bled Prussia absolutely white, but the inhabitants of that unfortunate kingdom, which had never reached the happy state of complete recovery from the ravages of the Thirty Years' War, had meanwhile attained a great mastery over the art of tightening their belts. After Waterloo and the Peace of Paris this land was in the blissful position of a man who is so poor that no one is ever willing to lend him anything, and who can therefore rightly rejoice in the fact that he has no debts.

At last, during the three decades of undisturbed peace (from 1815 to 1848), the population was granted a breathing space and could now begin to think of the restoration of its trade and agriculture and the rebuilding of its still very youthful industry; and conditions were still so primitive in the North of Germany that a mere handful of bankers, most of whom took up banking merely as a side line, amply sufficed for the purpose. When in 1792, Prussia tried to negotiate its first actual Government loan[1]—all previous borrowings had been considered the personal debts of the King—it had to turn to the much wealthier and more advanced Frankfort. During the next twenty years the financial situation grew consistently worse, and only after this, began very slowly and gradually to improve. As late as 1848 the capital per head of the population in Prussia

[1] See page 257 note.

amounted to only 720 Marks (£36), whilst at about the same time (in 1845) the figure per head in this country was £143—England had almost completed its transformation into a great industrial State and was satisfying more than one half of the total requirements in goods of the world. A full ten years later, in 1858, at a time, as will be seen, when several years of steady financial improvement had made their influence felt, there were in the whole of the then Prussia only eighteen hundred persons—of whom three hundred and eighty-four lived in Berlin—engaged whether as principals or assistants in monetary and credit business, and these formed 602 separate establishments, so that on the average each firm had only two employees.

The initial move towards the foundation of the first Prussian and German joint-stock bank came from England, and in a very roundabout way. The German victims of the crisis which existed there in 1847 were first the Messrs. von Haber (whose story is told in a separate chapter) and next the bank of Abraham Schaaffhausen, in Cologne, which closed its doors in 1848. As the young industry built up in the Rhinelands was in danger, the Prussian Government intervened and sent its Finance Minister, David Hansemann, to be on the spot; the result of exhaustive negotiations was the transformation of the private bank into a limited company. Thus a situation of extreme difficulty led to the establishment of the first modern joint-stock bank, the

A. Schaaffhausen'scher Bankverein

With things as they were, it is marvellous that the foundation was in fact effected, for reactionary Berlin was ever casting a suspicious eye on mercantile enterprise, the growth and development of which is invariably animated by a liberal spirit. At all costs capital must be deprived of the chance of organizing itself, lest eventually it should become strong enough to shake off the fetters of the Government. An excellent means to this end was found in the law

which made the formation of a limited company dependent on the consent of the authorities; only very reluctantly and under the pressure of circumstances, was permission given in this case, but the Government took good care that the new bank should not become too important, and immediately intervened when in 1855 an increase in capital and the opening of branches was mooted.

The moving power in the new bank was

GUSTAV VON MEVISSEN,

the leader of commerce in the Rhinelands, an industrial magnate and the President of the Rhenish Railways, a man whose extensive schemes were far in advance of his times. The writings of Heinrich Heine had drawn his attention to the theories of Saint Simon, but the opposition of the Prussian Government made it impossible, for the time being, for him to carry out his ideas.

Nevertheless he had found a field, modest though it might be, for the exercise of his activities, and he did in fact raise the A. Schaaffhausen'scher Bankverein[1] to the greatest eminence possible in the existing circumstances, but it was out of the question that an establishment which was kept in such tight leading strings should ever satisfy his schemes and urge for expansion, and he never ceased to elaborate, although secretly, the plan of a really great crédit mobilier bank. But before Hansemann, who in this connexion acted only in an official capacity to deal with an emergency, could take the initiative, matters of great importance in the financial history of Germany had taken place in Berlin itself, where the ruling powers continued their opposition to all strong capitalist tendencies.

[1] The subsequent fate of this great Rhenish bank with its ups and numerous visible and concealed downs consisted mainly in a continuous struggle for its independence which, however, it was unable to maintain; in 1903 it entered into a close working arrangement with the Dresdner Bank which both parties to the deal were glad to cancel in 1909. Whilst remaining nominally independent, it was taken over in 1914 by the Disconto Gesellschaft, and together with this latter was absorbed in 1929 by the new Deutsche Bank-Disconto Gesellschaft.

The son of a Hanoverian pastor

DAVID HANSEMANN

was apprenticed to the cloth trade, carried on a cloth business in Elberfeld, and in 1817 settled down in Aix-la-Chapelle as a woollen merchant; the establishment of the Aix-la-Chapelle-Munich Fire Insurance Society (in 1825) supplied the first proof of his gift for gathering men around him for the purpose of common progress. Although, being a Hanoverian, he was looked upon as a "foreigner," yet he took as a Liberal Conservative, an active part in Prussian politics, and when in two pamphlets he stated clearly that it was an impossibility, in the nineteenth century, to carry on government in opposition to public opinion, the only result was that the Government, on the pretext of "qualitative shortcomings, i.e. such as lay in his own character," refused any longer to confirm him in his post as Deputy Chairman of the Provincial Diet.

But Hansemann, in his career and in the versatility of his private interests a type found, as a rule, only in England, was capable of insisting on his own way and of carrying his ideas into effect, and—the Government needed him. He was the first in Prussia and Germany of the not very numerous band of great merchants who became Ministers without first having been officials. Although in the Revolution year of 1848 he was compelled, as Finance Minister and Minister President, to yield to the strictly Conservative faction, yet the merit was his that in those months of disorder he maintained the high state of credit of his country. He was appointed President of the State Bank.

This post, tantamount to shelving, in fact turned out to be the starting point of the true career of the man who coined the phrase, subsequently to become famous, "In matters of money friendship has no say." From his new vantage point he saw clearly that in Prussia there was no institution which could satisfy the increased and increasing demand

for credit on the part of the average merchant and manufacturer. Hansemann found himself in Berlin face to face with difficulties similar to those which twenty years earlier had confronted Gilbart in London. There was not the slightest hope that he would ever receive a concession for the establishment of a bank, and accordingly he saw himself compelled (in 1851) to confine his energies for the time being to the formation of an association without corporate rights whose sphere of influence had at the start to be restricted to its 389 members, who between them contributed a capital of one and a half million Marks. As at the start the intention of the association was the transaction of discount business, it called itself Disconto Gesellschaft, and only in 1856 was it transformed into a joint-stock company[1] and in the true sense of the word became a bank, which under the management of the son of the founder, developed into one of the strongest money powers of the Continent.

ADOLPH VON HANSEMANN

ranks as one of the most important European financiers of the second half of the nineteenth century; together with his rival, Georg von Siemens, he organized the once so mighty German banking system. However great the compliment, Hansemann would have attached slight importance to being named in the same breath with the first manager of the Deutsche Bank; for, as a man of established wealth looks down upon the new-rich, so this highly gifted man and banker, who for many years kept his Disconto Gesellschaft unchallenged in the foremost rank, gazed with incomparable disdain on an institution twenty years younger. He did not for a moment believe that the Deutsche Bank could ever become a serious competitor, and when its balance sheets provided stronger and stronger evidence to the contrary, he simply refused to admit the facts. He would

[1] For legal reasons the correct name of the bank—a joint-stock company with limited liabilities, which includes persons whose liability is unlimited (Kommandit Gesellschaft auf Aktien)—was Direction der Disconto Gesellschaft.

have thought any man a fool who so much as hinted at the possibility of the Deutsche Bank ever approaching the importance of the Disconto Gesellschaft; yet even in his lifetime his bank dropped more and more into the background, was eventually overtaken, and finally, in 1929 (a quarter of a century after Hansemann's death in 1903), when momentary panic seized the Board, it was glad to merge itself, though with some gnashing of teeth, into the Deutsche Bank. Hansemann would have surmounted any and every difficulty by himself as he did in 1895, when the huge losses arising out of the Great Venezuela Railway Company,[1] founded by it in 1888, caused the Disconto Gesellschaft the greatest possible embarrassment.

Although a despot Hansemann was an exceedingly successful one, during whose management the bank was only nominally an undertaking conducted by a Board[2] of persons having equal rights. For nearly fifty years the unqualified centralisation of affairs in Berlin was insisted upon, and not till 1900—and incidentally thirty years after the Deutsche Bank had settled in Lombard Street—was the first branch opened, in London, to look after and extend overseas relations. Two years later, when considerably younger banks had already an extended network of branches, were the first branch offices (Depositenkassen) opened in Berlin.

[1] In 1888 the Disconto Gesellschaft entered into an agreement with Krupp, who had obtained a concession for the construction of the Great Venezuela Railway. This transaction brought enormous orders to German industry, but involved the Bank itself in a mass of troubles and annoyances which by 1895 had become acute. Very serious consequences might have also been entailed by the participation in the Popp (Internationale Druckluft & Electricitaets) Gesellschaft, entered into in 1892; here the Disconto Gesellschaft had a living skeleton in the cupboard that had absorbed 40 million Mark which were never shown in the balance sheet: Something had to be done to put matters right: Hansemann, with characteristic energy, in 1895 acquired the Norddeutsche Bank in Hamburg, the purchase price being paid in shares of the Disconto Gesellschaft without the latter for the time being increasing its capital. The capital (M. 50 millions) and the reserves (M. 14 millions) of the Nordeutsche Bank, which were now available to the Disconto Gesellschaft for the purposes of its balance sheet, made possible the invisible writing off of the big losses.

[2] For a short time from 1870 to 1876 Johannes von Miquel was a member of the Board of the Disconto Gesellschaft, without, however, making much mark. He then went into public affairs, became Oberbuergermeister of Osnabrueck and Frankfort, and in 1890 the great Prussian Finance Minister, during whose period of office income tax, trade and estate duties were introduced and who in 1897 carried through with brilliant success the conversion of the 4 per cent State Debt into a 3½ per cent one.

For many years the bank had been a member of the German Rothschild Consortium in connection with its vast transactions in international loans, and in 1901 it was selected to wind up the old original house of M. A. von Rothschild & Soehne, in Frankfort, and take over its current business, a turning point in German finance to which a separate chapter of this book is devoted. The Disconto Gesellschaft in this way acquired a uniquely great and valuable tradition.

DARMSTADT

FRANKFORT; DARMSTADT—DARMSTAEDTER BANK—NATIONAL-BANK FUER DEUTSCHLAND—(DANATBANK)

In Berlin David Hansemann was still continuing his efforts to secure for his Disconto Gesellschaft the rights of a legal person. In Cologne we see Mevissen, conducting with secret dissatisfaction the affairs of the Schaaffhausen; his great idea of forming an "Effektenbank" with the right to issue its own notes had made no further progress. Under a bureaucratic and reactionary Government the great centres of commerce refused to allow the opening of credit banks. Any application in Prussian Cologne would have been labour in vain, and in Berlin still more so. Bavarian Munich was no more willing than the Republic of Hamburg. The Senate of Frankfort, fearing somewhat ridiculously, lest "foreigners" might get too powerful within its walls, had decreed, when in 1854 the local State bank, the Frankfurter Bank, came into being, that only citizens of the Free City entitled to a vote should have the right to subscribe for shares. Speculators accordingly hired strong working men, with neither the ambition to apply for bank shares nor the money to pay for them, but possessed of their full rights as citizens and also of strong arms wherewith to push their way through. Younger sons, who until now had been in no hurry to take the oath of citizenship, now rolled up in their crowds to make up for lost time and were dubbed "Bankbuerger" (bank citizens) by the popular wits. It goes without saying that, in order to protect the home banks against competition, the Frankfort Senate also vetoed the establishment of any joint-stock bank, even of a branch, and in order to obtain

a footing in the independent city on the Main, "foreign" banks had to be satisfied with appointing an agent[1] who carried on business under his own name, describing himself as a private banker.

Laws exist to be circumvented, and in a country like Germany, consisting of so many individual States, it was suddenly found that it was not over-difficult to escape from their meshes, once an ingenious mind had discovered the way. Petty Princelings, who had long been proud of the possession of a little Versailles of their own, where they could model their miniature courts after the great pattern and for their private amusement ape their exalted prototype in other respects as well, had come to appreciate the great financial advantage which might accrue to the State Exchequer and to the Privy Purse from the grant of bank concessions. Dessau in 1847 (Anhalt Dessauische Landesbank), Meiningen in 1856 (Mitteldeutsche Creditbank), even the small health resort of Homburg in 1853 and many other diminutive capitals[2] became the seats of banks whose financial resources bore no sort of relation to their local habitants.

Darmstadt, the little Hessian capital (at the present time its inhabitants number less than a hundred thousand), was towards the middle of last century not much more than a village, its Grandducal family not yet related to the English Court, and was so appallingly slow that Heine tells the story of a dog which, in the chief thoroughfare, implored strangers to give it a kick to cheer it up a little. But, and this was an advantage not to be overlooked, it lay within a bare fifteen miles from the then still dominating commercial metropolis of Germany, Frankfort. In Darmstadt

[1] The Mitteldeutsche Credit Bank (1856), for instance, was represented in Frankfort until 1872 by August Siebert, the Darmstaedter Bank until 1864 by A. Niederhofheim, when the necessity for camouflage ceased, the agencies became branches and the agents managers, which *de facto* they had been for a long time.

[2] Von Erlanger & Soehne in Frankfort, to mention but one, were interested in the Oldenburgische Landesbank, the Mecklenburgische Bank, the Landesbank Homburg and the Schwarzburgische Landesbank, in whose formation they had assisted, on whose Boards they were represented, and which, we may be sure, during the first few decades of their existence transacted no other business than that delegated to them by their patrons.

itself there was neither Handel (commerce) nor Industrie (industry) of any kind, and yet in 1853 a concession was granted for the establishment of the *Bank fuer Handel & Industrie*[1], the first German crédit mobilier bank and the men who assisted at its birth were Moritz von Haber, together with many from Cologne, Abraham Oppenheim, Ludwig Deichmann, Viktor Wendelstadt and Gustav von Mevissen who now at last had reached his goal.

For the moment, however, Mevissen's success was only partial, for it was decided that the working of an "Effektenbank" could never be completely free from a certain amount of risk, and that therefore it was impossible to sanction the issue of notes. Yet the highly ingenious Moritz von Haber achieved the seemingly impossible, and in 1855 a bank of issue, the Bank fuer Sueddeutschland, was able to open its doors. As its managers were at the same time also the heads of the Darmstaedter Bank, the separation was in fact never more than purely nominal.

The Articles of Association, and consequently the initial programme, of the Darmstaedter Bank were modelled in the main on those of the A. Schaaffhausen'scher Bankverein and of the Crédit Mobilier, without whose assistance it would have been almost impossible to place the initial share capital of M.42,760,000 (£2,132,500), of which at the start only M.17,000,000 (£850,000) was issued.

After passing through several more or less infantile diseases, the bank eventually reached a calmer course, and, in this respect differed most agreeably from its Paris prototype. In its further development it remained particularly cautious and conservative, and always maintained a strong liquid position, thanks to which its acceptances occupied a privileged place in the discount market. In 1863—a year earlier than the Disconto Gesellschaft—the Darmstaedter Bank (on the occasion of the issue of the Bonds of the Galician Karl Ludwigsbahn) was admitted

[1] Bank fuer Handel & Industrie was the only name of the new establishment; the abbreviated name of *Darmstaedter Bank* was, however, generally used in business circles and remained the best known.

to membership of the Rothschild Consortium, which added considerably to its glory. By means of the formation of subsidiary companies the bank endeavoured to extend the sphere of its activities to other countries, and under its aegis came into existence the Amsterdamsche Bank in 1871, the Banca Commerciale Italiana, in Milan, in 1894 and the Wiener Merkur in 1902, all of which rose to be amongst the leading money powers of their respective countries. In London the Bankers Trading Syndicate was formed in 1900, and stood in the closest relation to S. Japhet & Co.[1] Those respected merchant bankers acted till 1909 as the London representatives of the Darmstaedter Bank.

Until 1900 this bank was represented in Germany only in its native town, and in Frankfort, and from 1871, in Berlin.

Then a start was made with a rather belated policy of expansion, which was not, however, accompanied by any increasing activity. Some life was infused into the somewhat somnolent management by Bernhard Dernburg[2]—who had as colleagues Dr. J. Riesser, esteemed as a theorist and teacher rather than as a practical man (it was said of him that the lawyers looked upon him as a great banker, whilst the bankers considered him an eminent lawyer), and Johannes Kaempf, President of the Reichstag during the war; but Dernburg acted in this capacity only for a short time, as in 1906 he was called to take charge of the Colonial Office.

For very many years the excellent organization and the old standing and brilliant connections of the Darmstaedter Bank, which transacted the most extensive financial business of any in the South of Germany, were not exploited to the full, but after the world war numerous attempts were made to stir up new energy in the management of the bank, which offered many attractions as an object for a merger.

The *Nationalbank fuer Deutschland* succeeded in 1921 in carrying through an amalgamation. The youngest of

[1] See page 335.

[2] See note page 232.

the leading banks, it had been formed in 1881 by a group which had at its head the Oesterreichische Laenderbank (this in turn being backed by the Union Générale of Bontoux) and included the firm of Jakob Landau, originally active in Breslau, but since the later 'sixties transferred to Berlin. In a twenty year struggle for the predominance—and such struggles grew to be very characteristic of the development of banking in general in Germany—the Landau family had sought to maintain its strong influence on the joint-stock bank in whose formation they had collaborated. Since their private interests were repeatedly in collision with those of the Nationalbank, the latter frequently, to the prejudice of its shareholders, entered into transactions in which it was to a very great extent the supplier of the necessary money but to a far less extent the maker of profits. In spite of all this, at a time when the capital of the bank had increased to forty-five millions and the Landaus had long ceased to hold a controlling share, their senior partner held office as Chairman. From this struggle also the joint-stock bank emerged victorious. When a crisis broke out in 1898, Jakob Landau were glad to find a welcome haven of refuge in the Nationalbank, and the firm's partner retired from the Board of the Bank. Now at last the Bank had the chance of a free development.

The union of the Nationalbank fuer Deutschland and the Darmstaedter Bank in 1921 and the formation of the Danatbank which in turn collapsed in 1931 is described in the chapter headed "The Twilight of the Gods."

PASTURES NEW

NATIONALISM AND IMPERIALISM—THE REICH—1871

THE nearer the nineteenth century drew to its end, the greater became the rate at which the landed interest was outstripped by the moneyed interest; and in spite of the growing concentration amongst themselves the money powers increased in number and importance. Political views had likewise undergone a fundamental change; liberalism, introduced by France, was followed by the Nationalism of Bismarckian Germany, which was replaced in its turn by the new imperialism under the Union Jack. This imperialism began its triumphant course on the day when Disraeli was able to report to his Queen, to whose title he was soon to add that of Empress, "Madame, you have it,"—the Suez Canal, the majority of whose shares he had acquired with the backing of the Rothschilds, on November the 24th, 1875. To succeed the gentlemen adventurers of the sixteenth century the nineteenth had evolved the type of the modern conquistador with an Oxford degree, men who, like the proconsuls of ancient Rome, knew how to develop and govern countries: Minto in Canada, Cromer (a Baring) in Egypt, Curzon in India, and, towering high above them all in importance, Rhodes of Africa.

The home countries had become too small for its inhabitants; they all aspired to a new place in the sun, all wanted to become, both politically and industrially, world states; and in addition a new competitor had arisen—the new united Germany.

Even before 1871 the conversion of the German

agricultural state into an industrial one had proceeded comparatively rapidly, and from that time forward it attained, especially when compared with France,[1] an express speed; but not until the Customs barriers had fallen and in 1875 the Mark had been introduced as the currency of the Empire was it possible for the startling transformation and the enormous boom to take place.[2] In order to be able to carry goods under the flag of the country to the markets of the world ships were built.[3]; in order to strengthen the gold reserve of the Reichsbank interest was taken in the gold mines of South Africa; and in order to finance the new industrial organisation banks were founded at home and abroad.

As late as 1876 the Commissioner sent by the Empire to the World Exhibition in Philadelphia had described the German goods displayed there as "cheap and nasty"; by the end of the century the designation "made in Germany" and intended as a warning against purchase[4] had become a recommendation.

1871

Bismarck had considerably underestimated the inner strength of France, and in spite of all his efforts had not succeeded in bleeding her white; in the fixing of the war indemnity which was to keep France financially crippled for many years he and his advisers, Gerson von Bleichroeder

[1] In 1852 the difference was not so very great; in Germany 28.5 per cent, in France 25 per cent of the population were engaged in manufacture. In the last decade of the century the transformation had been completed in Germany, and in 1910 the figures were 60 per cent in Germany, in France only 44.1 per cent.

[2] Foreign trade 1887–1912. Increase: Germany 225 per cent; England 112 per cent.

Coal production 1886–1911. Increase: Germany 218 per cent; England 72.6 per cent.

The total value of the products of the German mines increased from 314 million marks in 1871 to 1,980 million marks in 1909.

[3] Merchant Navy 1870–1907. Increase: Germany 250 per cent; England 185 per cent.

[4] The Merchandise Act of 1887 by sec. 16 (1) prohibited the import of all goods manufactured outside England which bore the name or trade mark of any manufacturer, dealer or trader in the United Kingdom "unless such name or trade mark is accompanied by a definite indication of the country in which the goods were made or produced."

and since Henckel Donnersmarck had made a serious miscalculation: the debtor paid punctually, gave no opportunity whatever for the imposition of sanctions, and the victors regretted the modesty of their demands.

Like an unexpected and heaven-sent miracle the five milliard francs flowed into a country which hitherto had barely been in a position to furnish its home industries with sufficient means, and in which every undertaking, even Krupps, was hampered by a constant shortage of capital.

This gigantic sum cried aloud for investment. The individual states paid off their redeemable loans, with the result that, though this happy state of things did not last long, the income from such assets as mines, railways and so on exceeded the amount required for the interest on the remaining debts. Considerable amounts were put into home railways, bringing extraordinary profits to the investors, for the era of nationalisation was soon to dawn. Even happier was the lot of those who bought American bonds; for six years after the Civil War these could still be acquired cheaply and there was a ready market for them, especially in Frankfort, where a considerable number of prominent houses maintained a close connection with New York.[1] But even all these transactions did not absorb all the liquid money. The safest, and eventually most profitable and therefore most reasonable thing to do would have been temporarily to invest in French Rente sums for which no other use could be found; political inhibitions, however, prevented such investments from being made except occasionally, and then only in Southern Germany.

Prudent waiting on events is not one of the characteristics of a community which has suddenly grown rich, and still less so of the Stock Exchange, and the result was that in Berlin and Frankfort speculators lost their sense of proportion and committed grievous blunders; banks had sprung up in such vast numbers that they could not find a

[1] See chapter Frankfort and America page 262.

sufficiently wide field for all their activities; and by the middle of the 'seventies most of them had been either closed or taken over in accordance with the law of the survival of the fittest, by their stronger brethren. The Gruenderjahre came to an abrupt termination and in Vienna ended in a Krach.[1]

[1] As to the Gruenderjahre (years of promotions) and the Krach (collapse see page 181.

DEUTSCHE BANK

GEORG VON SIEMENS—LUDWIG BAMBERGER

EVEN before the outbreak of the war in 1870, German bankers and banks—Delbrueck, Leo & Co., Gebr. Schickler, F. Martin Magnus, of Berlin, the A. Schaaffhausen'sche Bankverein, of Cologne, the Schlesische Bankverein, of Breslau, von der Heydt & Co., of Elberfeld, Gebr. Sulzbach, of Frankfort, Wuerttembergische Vereinsbank, of Stuttgart[1] —had founded in Berlin, then merely the capital of Prussia, a bank destined to a task as yet undertaken by no bank in Germany: financing foreign trade.

It is impossible to say definitely whose brain originated the idea of the foundation of a bank of a kind hitherto unknown in Germany; but the scheme received its final shape and form at the hands of Adalbert Delbrueck and Ludwig Bamberger.

ADALBERT DELBRUECK, although a theorist rather than a practical man, had worked his way up from the position of a rhenish lawyer to being the head of Delbrueck, Leo & Co., which to this day is, under the name of Delbrueck, Schickler

[1] As to Delbrueck, Leo & Co. and Gebr. Schickler (at present amalgamated under the name of Delbrueck, Schickler & Co.) a few words will be said in this chapter —F. Martin Magnus ranked for a time amongst the first Berlin bankers; but in 1875 they made considerable losses through their participation in industrial undertakings. Prior to this setback they had vast dealings with the Russian Government, and together with Mendelssohn, and frequently on their own account, took up large parcels of Russian loans. One of the partners, Viktor von Magnus, held office as British Consul-General. As to the A. Schaaffhausen'sche Bankverein see chapter on "The First German Banks";—the Schlesische Bankverein, a very important provincial bank, was for a while in close connection with the Deutsche Bank and was eventually absorbed by it;—von der Heydt & Co., who carried on banking transactions of the most varied kinds inside and outside of Germany, do not now occupy their former leading position in the Rhenish-Westphalian industry; Gebr. Sulzbach are dealt with in greater detail in the chapter "Frankfort"—The Wuerttembergische Vereinsbank carried on under the management of Alfred von Kaulla an exceedingly active business for a provincial bank.

& Co.,[1] one of the most eminent banking houses of Berlin. Even when Chairman of the Deutsche Bank he kept guard with the utmost care and meticulousness that no one should come along to compete with his own firm, but this did not prevent the new bank from within a very short time out-stripping all its promoters in importance. In spite of their shrewdness it had occurred to none of them that the new venture would not and could not be content with carrying on an overseas business, but that it would before long engage in regular banking, first in Berlin itself and then by means of branches. There were sharp conflicts between management and board,[2] and the numerous members of the latter eventually decided to limit their activities to the supervision laid down by law.

Delbrueck summoned from Mainz LUDWIG BAMBERGER, political economist by training, politician by inclination, and banker by force of circumstances; he assisted in the preliminary planning and arrangement of the details of the organisation. The year of revolutions, 1848, was fatal for him also; as in Germany severe penalties are attached to any participation in activities inclining towards liberalism, he was—in absentiam—sentenced first to a long term of

[1] Adalbert Delbrueck's son Ludwig gave new glory to the firm when he formed Krupp into a limited company; he was appointed banker to the Imperial Privy Purse, but qui mange du pape en meurt. Before his tragic end he affected the fusion of his firm with one of the oldest Berlin houses, Gebr. Schickler, founded in 1795, whose proprietors had moved to Paris.

[2] According to German law an Aktiengesellschaft (limited company), is legally represented by the Vorstand (the management), whose members are known as Direktor and not by the Aufsichtsrat (board of directors) which, though intended to function as a "Committee of Supervision," has in practice degenerated into a mere caricature of what the law meant it to be. Generally speaking in Germany, and especially in the banks, the general manager was the sole and absolute ruler. A man who by his position was fitted to belong to the Aufsichtsrat of a bank had, either from his main profession or from his private means a sufficient income; to expect that he should constantly and regularly attend meetings would have been quite unfair.

An especially peculiar position was occupied by the German bank manager who was appointed director on the board of undertakings financed by his bank, and it suffices to point out that in 1930 a then prominent member of the banking world was director of a hundred and five companies. "The directors are all honourable men; the manager is an honourable man; the shareholders they, too, are all honourable men (unless women and children); and where such honour and excellence prevail, it is surely unreasonable to identify any man, or class of men, with that invidious and troublesome attribute—responsibility." These words, quoted from the *Banker's Magazine*, lead to the conclusion that even in England things did not always go as they ought to have gone, especially not in 1863 when they were written. The apt remark made by Ludwig Bamberger, that in conjunction with an efficient manager the board would be superfluous, but with an inefficient one helpless, is definitely applicable to conditions in both England and Germany.

penal servitude, afterwards condemned to death, and as that country has at all times been in the happy position of being able to dispense with its best brains (Heinrich Heine, Karl Schurz, Richard Wagner and very many others), Bamberger had to share their lot for twenty years.

He found his first refuge in London with his uncle[1] Louis Raphael Bischoffsheim and in the bank of Bischoffsheim & Goldschmidt, the twenty-five-year-old graduate had to start his studies all over again. It would be difficult to imagine a better school than this establishment, with its wide ramifications and Bamberger was entrusted with the most varied missions, which took him to Rotterdam, Amsterdam, Brussels, and eventually to Paris, where the firm carried on international dealings on a very large scale and was in close touch with various banks. Bamberger specially distinguished himself in connection with the promotion of the Banque de Paris and des Pays-Bas (which is dealt with in the chapter on The Great French Credit Companies).

The political amnesty of 1866 at last enabled him to return to Germany, and now Bamberger began afresh where he had left off in 1848: he became a politician, and was from 1868 to 1893 Deputy for the National Liberal Party, and after the Secession of 1884 to the Liberal Party first in the Zollparlament, then in the Reichstag, and was throughout an enthusiastic champion of Free Trade.

The scientific theorist, who had gone through the school of practice—a rare combination in those days—became one of the leaders of the new Germany; to him is largely due the decision that the whole Empire should have but one currency, without heeding the separatist tendencies of the individual States; thus the man who coined the phrase quoted in the preface to the present volume, "About two things only people lose their wits and go mad: love and bimetallism," became one of the originators of the German gold standard. The second main pillar of German finance, the Reichsbank, owes to a still greater extent to Bamberger

[1] See page 326 note.

the structure which it maintained in its essentials down to the world war, in which connection it is not uninteresting to point out that it was his uncle and father-in-law Jonathan Bischoffsheim[1] who evolved the fundamentals of the scheme for the Belgian Note Bank.

Ludwig Bamberger was fully justified when, looking back, he said with pride, "I have the satisfaction of having done my share in lasting achievements of importance in private financial affairs, as well as for the Government, through my collaboration in the establishment of the Reichsbank, the Gold Standard and the Mint Legislation;" and no less a man than Karl Helfferich,[2] who always admitted that all he knew he had learnt from Bamberger, and who carried on his plans, acknowledged the truth of this.

This modest man achieved further posthumous fame in our own days when a recent publication divulged the fact that this Liberal politician had been the constant confidential adviser behind the throne of the Emperor and the Empress Frederick during their short and tragic reign.

His collaboration in the promotion of the Deutsche Bank, whose name[3] was his own brilliant idea, was Bamberger's last participation in business affairs; this shrewd man foresaw the coming of an era of slander levelled against all public men who were in any way connected with finance, and in 1872 he completely severed all his relations with banks. His connection with the Deutsche Bank was all too short, and consequently he was unable to influence its

[1] See page 326.

[2] Karl Helfferich took up a University career and became Professor of Political Economy. His publications on international finance and his work at the Colonial Office attracted the attention of the Deutsche Bank which in 1906 took him into its employ, first as manager of the Anatolian Railways, and in 1908 as member of the management of the Bank itself. During the war he entered Government service, becoming first Finance Minister, then Minister of the Interior. After the events of 1918 he became an enthusiastic reactionary and enemy of the Republic. After the death of Rudolf Havenstein, the President of the Reichsbank, in 1923 he was twice, and each time unanimously, elected to succeed him, but the Government refused to sanction the election and appointed Dr. Schacht to the post. Annette von Siemens, the daughter of Georg von Siemens, took as her second husband (in 1920) Helfferich, who met with a sudden end in 1924 in a railway accident at Bellinzona.

[3] The management of the Deutsche Bank was far-sighted, able and prudent, and its success was fully deserved; at the same time there can be no doubt that the inspired name "Deutsche Bank", German Bank, did its share in winning for it an early reputation and importance, especially abroad.

future development to any great extent, but he it was who put it on the map.

The man who made the Deutsche Bank into one of the most influential of Germany's money powers and, a still more important point, one of the strongest in the world was

GEORG VON SIEMENS

Far beyond his early death he exercised the greatest possible, and at the same time a dangerous, dominion over the development of his bank and, as the pioneer of German bank policy during the second period which began in 1871, over the expansion at home and abroad of banks in general. However many interesting and shrewd brains may for more than half a century have stood at the head of the new institutions as well as of the older ones which modernised themselves after its pattern, not one of them could do anything but follow in the paths which Siemens had been the first to tread.

He was the son of Justizrat Johann Georg Siemens, who in 1847 gave to his cousin, Werner, the first modest means which made possible the promotion of Siemens & Halske; Georg, who had studied law, entered the service of the Electrical undertaking in 1867, when the Indo-European Telegraph Co. was formed and a thoroughly efficient man was required, first in London, then in the Caucasus and in Persia, who could keep his eyes open, for it was the task of a diplomat to see that the new line was constructed without conflicting with English or Persian interests. When this was finished, Georg's father insisted that his son should go back to Government service, the only career which he considered possible for him; "my son the clerk," the peculiar old gentleman frequently remarked with great disdain, even after Georg was head of his bank, and in saying this he did no more than give expression in a somewhat crude form to the narrow views of his times.

This Georg Siemens[1] and one Wilhelm A. Platenius, a German American who left at the end of a year, were called in by the founders to assume the management of

[1] He received a title in 1899.

the Deutsche Bank. Siemens had at no time any of the qualities which go to the making of a clerk; he knew nothing of the technique of banking, and his first years at the head of the bank were his real apprenticeship. In later years he often related how on the first day he and Platenius sat face to face at their desk and asked each other, "What are we going to do now? Have you really the remotest knowledge of banking?" and each had to admit that he hadn't.

Under very conservative management the development of the bank at home was very slow; the crisis of 1873, therefore, hardly affected it, and it was even able to salve for itself from the general wreckage many a valuable asset. In the long run it was bound to be intolerable for Siemens that the Aufsichtsrat, and particularly Delbrueck, should occupy themselves with every detail of business, and his next task was therefore to bring his own house in order. "When four and twenty men manage a bank, the result is the same as when a girl has twenty-four admirers. None of them marries her, but at the end she has a baby." This argument was forcefully put forward at a Board meeting and did not fail to have effect—for the future Siemens's predominant position remained unassailed.

Siemens was less fortunate with his first foreign branches. Those in Shanghai and Yokohama, which had been opened in 1872, before the introduction of the gold standard in 1875, had to be closed as the depreciation of silver in 1874 tended increasingly to reduce the capital invested, and it likewise became necessary in 1875 to wind up the branch at La Plata (which had been started in 1872 by the Disconto Gesellschaft and taken over by the Deutsche Bank in 1874).

These were obvious and serious setbacks, but neither Siemens nor his first real collaborator, Hermann Wallich, would allow themselves to be discouraged; they clung tenaciously to their object, which was to procure by means of branches in foreign producing and shipping centres support for German commerce and German currency. "The realisation of this idea," wrote Wallich years later, "was the dream of my youth, and I made it my life's task to carry this plan into effect."

DEUTSCHE BANK (BERLIN) LONDON AGENCY

THE FOREIGN BANKS AND THE CITY

IT was impossible for the German overseas trade to exclude London from its calculations; the import of cotton and of most raw materials was financed from the City, and all export had to pass through English ports. Only sterling and acceptances in sterling had unhindered and unlimited currency everywhere—there was no market for the Mark.

The first and foremost endeavour of the Deutsche Bank was to obtain credit facilities for German exporters and importers. J. Henry Schroeder & Co., Fredk. Huth & Co., Horstmann & Co.[1] and other bankers of German origin hardly came into consideration in transactions of this class, and accordingly from its very inception the bank was intent on having a branch establishment of its own in the City. The postulate "Away from the Pound" was logically bound to have as its sequel the maxim "A Footing in London." For legal and formal reasons this was impossible for the moment; the object was only partially achieved by means of the GERMAN BANK OF LONDON, founded in conjunction with Gebr. Sulzbach and the Mitteldeutsche Credit Bank in 1871, which had a capital of only £600,000, but enjoyed enormous credit. It soon became redundant for the purposes of the Deutsche Bank which, however, could not enforce a liquidation, as this, according to the laws of this country, requires a three-fourths majority, and the other two parties concerned were unwilling. Not till 1879, after long negotia-

[1] Only J. Henry Schroeder & Co. survive to-day; Huth was absorbed in 1936 by the British Overseas Bank; Horstmann went into liquidation a few years ago.

tions, did the Deutsche Bank acquire the whole of the share capital.[1]

The reason why the interest in the German Bank of London was no longer necessary for the Deutsche Bank was that it could now itself achieve its original object; a Treaty signed by the Earl of Derby as Foreign Secretary and the German Ambassador Prince Muenster, had been concluded on the 27th March, 1873 according to which "Joint Stock Companies . . . may fully exercise in the Dominions of the other all their rights."[2] This was the aim which lay closest to Siemens's heart, and he used every means in his power to bring about its fulfilment. On the 8th March, 1873, even before the Treaty had been signed, the Deutsche Bank (Berlin) London Agency opened its doors; it grew to be the greatest and most important subsidiary of the Deutsche Bank.

Like all foreign and especially German banks, the agency found itself face to face, and not during its first few years only, with extraordinary difficulties. In spite of the "unfailing liberality of sentiment and breadth of vision" of the City, many obstacles were placed in its path, and many accusations, some justified and others not, made its life a burden. It was charged with having spoilt business by underbidding the rate of commission; with having undertaken collection business at a loss solely with the object of acquiring valuable information from the study of the acceptances which came into its hands, and it is not im-

[1] The German Bank of London—Sir Felix Schuster was one of the directors—was merged in 1913 with the London & Liverpool Bank of Commerce, which in turn was in 1923 absorbed by the British Overseas Bank (which was registered in 1919).

In the wake of the Deutsche Bank came in 1873 the Commerz & Disconto-Bank (now Commerz & Privat Bank) when it formed the London & Hanseatic Bank which in 1916 changed its name to London Merchant Bank.

The International Bank of Hamburg & London of 1875 was closely connected with the Disconto Gesellschaft; its business was taken over in 1880 by the International Bank of London, which went into liquidation in 1905.—It may be not uninteresting to mention that the New York agent of the first International Bank was for a time Jacob H. Schiff, subsequently partner in Kuhn, Loeb & Co.

[2] The Treaty was "made without hints as to duration," and was to be revocable only "by either party giving a year's notice," but in August 1914 it shared the fate of so many other Treaties—it was cancelled between sunrise and sunset. Since that date there have been no German banks in London.

possible that all too eager managers coming from the Continent, who had not yet become acclimatised to the more rarefied atmosphere of Lombard Street, may not have been altogether innocent. In many quarters resentment was felt for the way in which these banks, with their modern organisation, had attracted a large share of the foreign exchange business, but the blame for this development must lie on the shoulders of the English joint-stock banks which, owing to a somewhat incomprehensible prejudice, refused to deal with it, and it was not until 1905 that the Midland Bank (at that time the London City & Midland) broke away from the ranks and became the first of the present Big Five to open a foreign exchange department.[1]

None of the foreign banks was admitted into the mystic inner circle of Lombard Street; the doors of the Clearing House naturally remained closed to them, and their acceptances, especially those of the German banks, were almost to the end looked upon with special reserve. The Deutsche Bank, the only one to be called in at the time of the Baring crisis, occupied a position apart, and in the course of time its acceptances were regarded as first class.

A very great deal of water had to flow under London Bridge before it became generally recognised that the London branches of the Continental banks were not merely competitors, but brought also considerable business and large turnovers for all markets, and that first and foremost the Crédit Lyonnais and the Deutsche Bank, introduced a vast amount of foreign capital. Thanks to their strong branches in the City the foreign banks have without any doubt contributed largely to the consolidation of the position of London as the world's centre of banking.

[1] See page 351.

ABROAD

FOREIGN TRADE AND FOREIGN BRANCHES. ENGLAND AND GERMANY—FINANCIAL IMPERIALISM

THE next phase proceeded on lines diametrically opposed to those taken by the development in England.

In this country there had been an overseas trade long before the banks had become internationally-minded; it had originally been in the hands of the great chartered companies, whose organisation was on so vast a scale that they could promote their own financial transactions, and who were so wealthy that they stood in no need of credit. Nor did the export industry itself, even after the vast growth following on its technical transformation, require the aid of the banks to any appreciable extent; the capital needed for the smaller individual units was provided privately and increased out of profits. There was no great change till the first third of the nineteenth century, when the great monopoly companies found that their last hour had come; then the multitude of merchants and traders who took their place had to have credits abroad to enable them to carry on an export business. The money powers of the day, the old-established banks and the new joint-stock banks whose organization was planned solely to deal with business at home, were unable to give the required assistance; nor were they willing to do so. The fear, expressed even in our own days by Sir Edward Holden, that the money paid in at home might be used by foreign branches for credit wanted by other countries (and in consequence of which the Midland Bank has as yet no establishment[1] outside the

[1] See page 351.

United Kingdom) existed at that time also. When, however, railways the world over began to be constructed with English money, that is with capital exported from home, it became necessary to set up credit establishments abroad having their real base in England. First as formerly the missionary, who said religion but meant cotton, had opened up fresh territories, so now the undisguised commercial traveller took the road, the contractor and the speculator leading the van. The bankers merely brought up the rear.

In Germany, on the other hand, it was the banks which took the initiative and became the pioneers of trade and industry. "To develop and to facilitate commercial relations between Germany and the other European countries and oversea markets" was the object laid down in the Memorandum of Association of the Deutsche Bank.

This, be it noted, constituted a further element of danger in addition to those already in existence, the importance of which must not be under-estimated; every possible banking transaction in the widest sense of the term was carried on, even dealings in landed estate, and if notes and mortgage bonds were not issued, it was solely because these transactions were prohibited by law. Owing to the multiplicity of their activities (they were acceptance banks, discount houses, speculation banks, industrial banks and issuing houses, for thanks to their organisation their ability to place shares was enormous, as well as finance houses) all the German banks were involved in considerable risks which, as they also accepted deposits, they should have avoided.

The banks which at this time were being founded abroad —not as branches but (though only in appearance apparently) as individual units, so that the acceptances which they drew on each other to facilitate the supply of money might straightway bear two signatures and thus escape the stigma of being considered mere accommodation bills—had as their first object the assistance of trade by regular banking activities. In immediate connection with this, however, it was their business to be on the look-out for opportunities

of financial and promoting transactions, and in the execution of these to lend a helping hand to the head establishment. "We have always claimed for ourselves, and still continue to claim, that we are in a sense leaders of the spirit of enterprise of the nation," said Siemens in the Reichstag with reference to his own bank and to banks in general; and in a letter to his wife he wrote, "I think that with every year I am drawing nearer to my object of making German import and export independent of England; the attainment of that object will be a national achievement, as important as the conquest of a Province"; these two phrases state most clearly the real aim of Siemens's banking policy and at the same time the general policy of the German banks of the pre-war period.

In the pursuit of so many objects—opening the ports of the world to German merchandise, obtaining world recognition for German currency and playing the part of industrial entrepreneurs abroad—the Deutsche Bank, and all those who followed in its train, were bound to carry out a policy of imperialism which was the more dangerous in that it was an imperialism prosecuted with unsuitable means. Even in the days of its greatest prosperity Germany was not wealthy enough to invest the whole of its capital in enterprises at home and abroad and to make loans to foreign states; this from political rather than economic motives. That imperialism was not even endemic; it was artificially aroused and inculcated, it was unreal, and, as its influence became visible in industrial, commercial and military matters, it finally defeated its own aims.

It has been said of the German banks—and the champions of the English system[1] raised especially warning voices—that they were constructed only for fair weather; the charge is severe and exaggerated. At the same time there is no doubt that their organisation, which constituted their

[1] In Germany men frequently toyed with the idea of reforming the banks after the English pattern and limiting their activities; in England many were dissatisfied with the existing banking system and would have liked to see its range widened in accordance with German methods. How truly ironic.

real strength, was not calculated to cope with all possibilities, and was definitely unequal to the last necessity of the state. Both the country with its ambitions and the banks with their commitments the whole world over, needed peace, and could only continue to exist so long as peace reigned; yet on the strength of the most abused of all dicta preparations were made for war.

In spite of the strenuous opposition of the Disconto Gesellschaft it became impossible in 1877 to continue to refuse the admission of the Deutsche Bank into the Syndicate for the issue of State Loans (Preussen Consortium); by the beginning of the 'eighties the Bank had arrived in the front rank of German financial institutions; and in 1899 the struggle for predominance between the two banks which had lasted almost thirty years and had in reality been a struggle between those two strong personalities Siemens and Hansemann came to an end. In that year all the other banks had raised difficulties over taking up a two hundred million Mark loan for the State: Siemens achieved a brilliant Coup for the Deutsche Bank by making the whole issue himself.

However tempting it might be to venture deeper into the tangled and complicated paths of the alliance between industry and the German banks, within the scope of this book it is only possible to state that the latter did not confine themselves to being "the advisers in matters of finance" or, in extreme cases, to finding the money required by the undertakings of their customers. Contrary to the English principle that "a banker must never forget that he cannot and must not be an industrialist," the German banks themselves joined the ranks of the entrepreneurs, the Deutsche Bank becoming the chief exponent of the system. A short reference only can be made to a few of the very important international transactions which Siemens himself inaugurated, and into the carrying out of which politics, at least from 1888

on practically identical with imperialism, entered as a third partner of the association.

Even better, perhaps, than as the maker of the Deutsche Bank, Siemens is remembered as the constructor of the BAGDAD RAILWAY, the direct connection, 1,560 miles long without any branch line, between Constantinople and the Persian Gulf.

The initiator of the enterprise was Alfred von Kaulla. The Wuerttembergische Vereinsbank, whose manager he was, and which had been closely connected with the Deutsche Bank ever since participating in its formation, had, in the interests of one of its chief customers, the Mauser Gewehr Fabrik, co-operated in a contract for the supply of arms to Turkey. The authorities in Constantinople came to the conclusion that in von Kaulla they had found the very man they wanted to enable them to interest German financiers in the Sultan's railway schemes. Siemens accepted with enthusiasm the proposals made to him, and in 1889 the gigantic task was begun.

A start was made by promoting the ANATOLIAN RAILWAY COMPANY[1]; the liability for the construction of the line was assumed by the Deutsche Bank, a proceeding which must have sent a severe shudder through the deeply-dyed disciples of conservative English banking.

The same year (1899) saw the acquisition by the Bank of the shareholdings of Baron Hirsch in the ORIENT RAILWAYS. This Company owned the track running from Nish (at that time in Serbia, now in Yugoslavia) to Constantinople. In view of the dominance of Vienna in the Balkans, such a transaction could only be carried through in conjunction with an Austrian bank. For this reason Baron Hirsch, when in 1868 he began his first venture, the East Hungarian Railways[2], had secured the co-operation of the Anglo-Austrian Bank. Siemens now called in the Wiener Bankverein; its head was Moritz Bauer, a banker of extraordinary

[1] The concession comprised the stretch from Haidar-Pasha near Constantinople, via Ismid to Angora, from Eski-Schehir to Konia.

[2] See page 321.

ability, but somewhat superficial in his methods and inclined to speculation, a fact which led at times to sharp differences between the somewhat ill-assorted partners. Otto von Kuehlmann (father of Richard von Kuehlmann, diplomatist and for a short time Minister of Foreign Affairs) was free, owing to the sale of the Orientbahn, of which he had been manager, and he was appointed to take charge of the Anatolian Railway.

The concession of the latter was extended in 1901 to the stretch which reached Bagdad and the Persian Gulf. Siemens was far too shrewd and cautious to keep the financing of this huge project entirely in the hands of the German money powers: an international syndicate was formed, from which only the English banks were absent; and in 1903 (Siemens, who died in 1901, did not live to see the foundation) the BAGDAD RAILWAY COMPANY was formed. The contractors, Philipp Holzmann A. G., of Frankfort, who were closely connected with the Deutsche Bank, started construction in 1903 and worked at it till 1918, that is to say throughout the World War. The Bagdad Railway's best agent in Turkey at any time was always the German Ambassador to the Sublime Porte.

Nowadays, this railway runs no longer under the German flag: other countries supply the rails, carriages and engines; but the memory of the work for civilisation done by the money powers of the old Germany will ever remain green. The enormous economic territory of Asia Minor, and beyond it the vast riparian lands around the Euphrates and the Tigris, had been made accessible; thoughts similar to those which came to the great financiers of Egypt, who wanted to restore the Valley of the Nile to its biblical fertility, must undoubtedly have passed through the mind of Siemens when, by means of the Bagdad Railway, the Old Testament Mesopotamia was given over to modern methods of cultivation.

The unlimited possibilities of the United States could not fail to attract a nature so keen on expansion as Siemens's;

with a railway system of 170,000 miles as against 140,000 in the whole of Europe, they occupied a leading position as early as 1890. Even before it went to the Near East the Deutsche Bank had been connected with American Rails, had taken part in the issue of various bonds, and in 1883 had shared in the NORTHERN PACIFIC 6 per cent. first mortgage bonds. The President of the Company was Henry Villard (born in the German Palatinate as Heinrich Hilgard), one of the most fascinating characters among the American railway magnates of those days. He was both a journalist and a financier, a combination only possible to a very strong personality—and many had none too good an opinion of him.

For the opening ceremony of his railway, which was to form the connecting link between two oceans, Villard had invited a number of notabilities in public life and finance, amongst them from Germany Otto Braunfels, the important partner in Jacob S. H. Stern, and George von Siemens, who in this way made, in 1883, his first trip to America.

During the triumphant progress from the Atlantic to the Pacific an event took place which had not been foreseen in the elaborate festal programme. Villard's opponents seized the opportunity to carry out a concerted attack on his extensive but none too strong share position; Villard fought as long as he could, but he soon came to the end of his resources and had to abandon his railroad. The Preferred Stock of the Northern Pacific fell from 90 to 56, the Common Stock from 57 to 23, the security of the bonds of which the Deutsche Bank held a great block, was dangerously jeopardised.

The reorganisation of the Northern Pacific was immediately taken in hand by Siemens; in America his main coadjutor in this complicated task was BERNHARD DERNBURG, whose name came now for the first time before the public. He had had the advantage of an excellent training in banking; from the Berliner Handels-Gesellschaft he had gone to Ladenburg, Thalman & Co., in New York, where

he had acquired a knowledge of American business and its ways which was to be of the utmost importance in his future career. Then he joined the Deutsche Bank, where, as manager of an affiliated Treuhand Gesellschaft (Trustee Company) he was able to develop his special gift for the reorganisation of embarrassed undertakings; and now, in the reconstruction of so important a company as the Northern Pacific, he had ample opportunity for the exercise of his abilities.[1] Siemens found further powerful allies in Otto Braunfels, and in New York itself in Speyer & Co., with whom relations grew still closer when Arthur von Gwinner joined the Bank.

In view of Siemens's ambition to shake off the shackles of the pound sterling the Deutsche Bank was bound to include in its programme an interest in the industry which produced the greater part of the world's gold. Siemens's brother-in-law, Adolf Goerz,[2] a mining engineer, went to the Transvaal for the first time in 1888 to study on the spot the conditions of the country and the new mines, and to obtain a banking concession; the latter project came to nothing, but a small syndicate was formed, to be turned into a public company in 1897, when Lord Battersea, Sir Anthony de Rothschild's son-in-law, was appointed chairman. Although A. Goerz & Co. Ltd. was an English company, it was controlled from Berlin, its most influential shareholders were German banks,[3] and together with other Anglo-German gold mining undertakings, it underwent special transformation during the war; in 1918 the name Goerz disappeared, and the company is now known as the Union Corporation of South Africa.

[1] Dernburg subsequently joined the management of the Darmstaedter Bank; see page 210.

[2] Adolf Goerz was the brother of Mrs. Elise von Siemens.

[3] Together with the Deutsche Bank, the Berliner Handels-Gesellschaft and Jacob S. H. Stern were represented on the Board of A. Goerz & Co. Ltd.—The history of the other group, the General Mining & Finance Corporation, lacks the interest of that of the Goerz Company: formed in 1895 to take over the firm of G. & L. Albu, which had extended its commitments somewhat too far, it put this firm on a sound and permanent financial basis.

THE COLLABORATORS

HERMANN WALLICH—MAX STEINTHAL—ARTHUR VON GWINNER

AN undertaking planned on lines so vast and varied as was the Deutsche Bank could not be and was not intended to be a one-man concern; from the very start Siemens was able to attract the co-operation of men who, after his death, maintained its traditions, and who in their turn, and not merely thanks to their positions in this most important bank, became leaders in their profession.

A few months only after the actual start HERMANN WALLICH joined the management; five years older than Siemens, whom he survived for nearly a generation, he had what the other lacked—considerable practical experience of overseas affairs and a thorough grasp of details.

Born in Bonn, he was sent to the neighbouring Cologne and apprenticed to the small banking house of Jacob Cassel, the father of Sir Ernest; from there he went, at a salary of two thousand four hundred francs per annum (of which he saved eleven hundred) to his uncle L. Cahen (Cahen d'Anvers). His great career as a banker did not, however, begin until 1863, when the Comptoir d'Escompte (as already related in the chapter under that head) sent him to occupy an important position, first at St. Denis de la Réunion (near Mauritius) and subsequently at Shanghai and Yokohama. Ludwig Bamberger, on the look out for efficient men for his new bank, invited him in 1870 to join the management of the Deutsche Bank; but Wallich was saved a possible conflict of interests, for shortly afterwards, when the war broke out, he, together with the other

German officials, received notice to quit the Comptoir. From this time on his story is the history of the Deutsche Bank, in whose employ he remained for fifty-eight years, until 1894, on the management, and subsequently, until his death in 1928 at the biblical age of three score and ten, as a member of the board. The development of the business overseas, of the branches, and especially of the London Office was in the main his work, and his extensive international connections enabled him in the course of time to set up the vast network which was ultimately to unite the bank with almost the whole world.

The sole survivor of a great generation is MAX STEINTHAL, who in 1874 joined the management. His real sphere was originally the Stock Exchange; at a relatively early age he switched over to the board, in order to be able to devote full attention to some of the most important transactions —Siemens & Halske and the other ventures of the Siemens Concern, the Electric Overhead Railway in Berlin, until its taking over by the city, and Mannesmann. As Director his attendance at the office was as regular as it had been in his managerial days, and for a considerable time his decision in all matters of policy was final. Even in his eighties his powers for work were unimpaired, and not until new conditions arose in Germany did he retire from his sixty-year-long sphere of activity.

The management of the Deutsche Bank, which at all times consisted of a large number of hardworking and eminent men, received a valuable addition in 1893 in the person of ARTHUR (von) GWINNER, a man of extraordinary gifts and extensive culture, who could discuss with the same authority philosophical problems and complicated questions of banking.

He came from a Frankfort patrician family whose scholarship, even measured by the exacting standard ruling in that city, was ranked very high; his father was the friend and executor of Schopenhauer, whose Christian name descended to the son. From personal choice Arthur Gwinner took up

banking; he went to Spain, and there for the first time came into touch with the Deutsche Bank.[1] His second permanent connection followed when he married Miss Anne Speyer. The close relations of the influential Speyer family with the Deutsche Bank smoothed the way for the new relative whose personal affairs had not been over-prosperous.

Not till he had reached this high position—and in 1893 when he joined the management the bank had already become a power—did Gwinner's abilities come to full fruition. With extraordinary rapidity he found his feet and became the bank's financial diplomat, and within a very few years he was amongst those who counted. "Since Gwinner's arrival the Deutsche Bank is in a position absolutely to do without me," Siemens wrote early in 1901 to Jacob H. Schiff in New York; but when he penned those words it is most unlikely that he had the least premonition that before the end of the year he would be actually and irretrievably replaced in the organisation which he had built up. At the start it was only in the work connected with the American and Turkish Railways that Gwinner succeeded Siemens, but later he was, primus inter pares, the head of the Deutsche Bank.

[1] Towards the end of the 'eighties the Deutsche Bank had also begun to take an interest in Spain; in conjunction with Arthur Gwinner & Co. the Banco Hispano-Aleman was founded in Madrid in 1889; with the assistance of the Deutsche Bank it was changed in 1894 into Guillermo Vogel & Co., which in turn was in 1906 taken over by the Deutsch-Ueberseeische Bank.

EUGEN GUTMANN

THE DRESDNER BANK

No other of the great German banks can claim anything even approaching the interest aroused by the Deutsche Bank; not one of them shows the same originality of development, and all of them liked to take up, very often at the wrong moment, ventures which Siemens and his men had already tried out. There is no doubt that the Dresdner Bank also came to be a money power of very considerable importance and of international repute, yet it achieved success only along those paths which had already been marked out by others.

Growing out of the banking house of Michael Kaskel, it was formed in the Saxon capital in 1872; nine years later it had outgrown its local limitations, and transferred its main activities to Berlin. Eugen Gutmann, its founder and head, was not a man who could be bothered with details, but an astounding flair for possibilities and a sensitiveness to Stock Exchange fluctuations caused him to involve the Bank in commitments that frequently called forth criticism but from which, as also from his extensive dealings in real property, he was always able to extricate himself with great adroitness. It was said of him that he looked at current economic events solely from the point of view of the rise and fall in quotations; he was, taking things all in all, the strongest individual character among the "fair weather financial leaders" of pre-war Germany. He conducted the destinies of the bank entirely as he saw fit, but at the same time allowed his more systematic

collaborators sufficient independence of action to enable them to work up its branch business[1] in extent and strength.

The evil hour of this bank came in the critical year 1901. Political anxieties caused great economic depression; mortgage banks looked upon as absolutely first class were the first to feel the pinch, and on the 25th June the collapse of the Leipziger Bank,[2] which had been founded in 1839 and enjoyed a great reputation abroad as well as at home, came as a bolt from the blue. The panic spread, and there was a run on the banks in general and the Saxon ones in particular; the strength of the Dresdner Bank was tried to the utmost, and though it emerged unscathed from the ordeal, it lost much of its prestige (and of its deposits). The Deutsche Bank, on the other hand, gained in power through the crisis. The management of the Leipziger Bank had in vain acquainted it with the state of its affairs. Thanks to this, the Deutsche Bank was the only establishment to be informed in time of the impending catastrophe, and was therefore in a position, on the very day of the collapse, to open in Leipzig a branch in hastily rented premises. Thus most of the deposits withdrawn from the other banks in Saxony were paid in to the Deutsche Bank.

The example of the Deutsche Bank was followed by the Dresdner Bank, when, in conjunction with the Disconto Gesellschaft and S. Bleichroeder, it founded in 1895 the General Mining and Finance Corporation in Johannesburg, went to London in 1901, and in 1905 formed the Deutsch-Suedamerikanische Bank. The same year saw the constitution of the Deutsche Orientbank which, originally

[1] A widespread network of branches belonged also to the Commerz & Disconto Bank, founded in 1870, at the same time as the Deutsche Bank. It did not, however, develop into a front rank bank until after its merger with the Mitteldeutsche Privatbank (formed in 1856 under the name of Magdeburger Privatbank). The combined establishment took the name of Commerz & Privatbank, and in 1929 was joined by the Mitteldeutsche Creditbank which had meanwhile fallen on very bad times.

[2] The downfall of the Leipziger Bank was due to the entanglement of the bank with a single industrial undertaking—an action so frequently accompanied by disastrous results; with complete disregard of the principle that commitments should be distributed, and in spite of its capital amounting to only 48 million marks, it granted a credit of 93 million marks to the Aktiengesellschaft fuer Trebertrocknung. How completely unexpected its collapse was is shown by the fact that on the day before it stopped payment its shares were quoted at 140 per cent.

confining itself to Turkey, Greece and Egypt, in 1907 at the instigation of the Government extended its activities to Persia. In order to enlarge the German market for American securities, the Dresdner Bank, also in 1905, entered into a working arrangement with J. P. Morgan & Co., of New York. It is characteristic of the general (in this case curious) abstention of English banks from business abroad, that the increase of the capital of the Sovereign Bank of Canada (which has since been wound up) amounting to a mere two million dollars, was carried through by this German-American group.

The opening years of the new century witnessed also the greatest expansion of the Dresdner Bank within Germany itself; in 1903 an agreement for a union of interests was entered into with the A. Schaaffhausen'scher Bankverein which was to put affairs on an appreciably broader basis, but it had to be cancelled in 1908 owing to excessive friction.[1] The old and high class firm of von Erlanger & Soehne, of Frankfort, with its considerable international connections and the extensive network of joint-stock banks[2] which it had formed, passed into its hands in 1904. At the same time it took over the Deutsche Genossenschaftsbank, one of the strongest amongst the numerous establishments—none of which, however, rose to any great importance—intended to help the small man on an essentially co-operative basis. A separate department (Genossenschafts-Abteilung) was formed to carry on the affairs of this bank, and in addition to the already multifarious activities of the German joint-stock banks, the Dresdner Bank from then on also acted as godfather to the greater part of the remaining smaller establishments.

That in the collapse of German banking in 1931 the Dresdner Bank was not, at least outwardly, more adversely affected, but was actually able—with considerable assistance from the Government—to take over the Danatbank (Darmstaedter Bank and Nationalbank fuer Deutschland) and so to extend the sphere of its activities, was no natural development, but due solely to force of circumstances.

[1] See page 202 note [1]. [2] See page 208 note [2].

CARL FUERSTENBERG

THE BERLINER HANDELS-GESELLSCHAFT

HOWEVER great the resemblance in the general constitution of the German banks, in their methods of conducting business they were dependent, far more than has been the case in this country, on the idiosyncrasies of their managers. Siemens was a statesman in business and a leader, Hansemann a cautious autocrat and at times inclined to be petty, Gutmann quick of apprehension and not unwilling to take big risks; to this extent, and to this extent only, the various banks differed in the way in which they examined any given proposition.

An establishment of an entirely autonomous type, both in general structure and matters of detail, was the Berliner Handels-Gesellschaft; it cannot be fitted into any pattern.

When, in 1856, after the Peace of Paris, speculators in spite of all warnings, went in head over heels for bank promotion, the Berliner Handels-Gesellschaft was one of many to be formed.[1] Although the shares offered were over-subscribed eight times, yet at first its affairs flourished; subsequently they became less profitable, but the bank held its own until 1873. After this date it went rapidly down-

[1] The Berliner Handels-Gesellschaft is a joint-stock company with limited liabilities which includes persons whose liability is unlimited (Kommandit Gesellschaft auf Aktien) and accordingly required no concession. Amongst those who took part in its formation were the Berlin Bankers F. Mart. Magnus and Gebr. Schickler, both of whom subsequently also played their part in the foundation of the Deutsche Bank, S. Bleichroeder, Mendelssohn & Co., Robert Warschauer & Co. and Sal. Oppenheim Jun. & Co. of Cologne, the versatile promoters who also assisted at the birth of the Darmstaedter Bank.—From the start the Handels-Gesellschaft was in close relation with Breest & Gelpcke, which from 1857 on, carried on business on behalf of the bank and in 1901 was absorbed by it.

hill, and unfortunate speculations in Russian currency, and in its own shares, which had fallen to sixty per cent, in 1883 made a reconstruction unavoidable. For this purpose, and to take over the management of the bank, the Board called in CARL FUERSTENBERG.

From this point only the history of the Berliner Handels-Gesellschaft begins to be interesting, but Fuerstenberg's own had started twelve years earlier when—after an apprenticeship in the banking house of R. Damme in his native town Danzig, for a time with Gebrueder Simon in Berlin, formerly the greatest textile merchants in Germany, and with the Disconto-Gesellschaft—he joined the firm of S. Bleichroeder in 1871. In this great house he found full scope for his natural abilities, came into close contact with the international money powers, strengthened in the Russian capital the hitherto tenuous relations[1] with the banks there, especially with the Petersburger Disconto Bank, attended to all current business and inaugurated fresh transactions: Fuerstenberg the clerk developed into Carl Fuerstenberg the financier.

In view of the great antagonism which existed between the two partners Gerson von Bleichroeder and Julius Schwabach, it cannot have been an unmixed joy to occupy a responsible, but not a ruling, position in the house of Bleichroeder. The call of the Berliner Handels-Gesellschaft was, therefore, welcome to both parties—quite definitely to the thirty-three year old Fuerstenberg (although at the start his income suffered) and probably also to the bankers, who may possibly have been just a little anxious at the enterprise and daring of their very able junior collaborator. The change took place early in 1883.

[1] There was in those days no organised financial business between Berlin and Russia. More or less loose relations existed between Mendelssohn & Co. and the Internationale Handelsbank, between S. Bleichroeder and the Petersburger Disconto Bank. The manager of the latter was at that time the gifted Excellenz Sack who had grown up in direst poverty; subsequently the predominant influence on its affairs was exercised by the great financier Hermann Raffalovich, from 1885 to 1893 a member of the Board of the Berliner Handels-Gesellschaft. Before Paris financiers got the bulk of Russian affairs—which in those days was tantamount to affairs with the Russian Government—into their hands, a leading part was played by the Dutch Bankers, chief among them being Lippmann, Rosenthal & Co.

From the very first day he managed matters at the Handels-Gesellschaft in his own way, and the only reason why during his nearly fifty years' activity there was no struggle for supremacy amongst his many frequently changing associates is that Fuerstenberg's predominance was established once for all beyond any possibility of discussion. It would be an under-estimate of his influence (and of himself) to describe him as primus inter pares; he certainly never said, "la banque c'est moi," but there can be no doubt that he often thought it.

It was run as if it had been a private and not a joint-stock bank, and the partners in the company en commandite attached importance to being looked upon, not as bank managers, but as "banquiers." So long as it was possible in any given case Fuerstenberg kept his bank aloof from any kind of connection with other establishments; he joined the joint-stock bank associations only when this step became unavoidable, and for many years he successfully refused to comply with the regulations of the Reichsbank to publish two-monthly balance sheets, although all the other big Berlin banks did. To this day the Handels-Gesellschaft stands aside from the competition in the opening of branches—which at times degenerated amongst the other banks into something like a fight between rival tobacconists for a favourable corner position—for it never opened a single one. With the progressive development of the branch system it became a kind of banker of the provincial banks, which were losing more and more ground by reason of the expansion emanating from Berlin which extended even to the smallest of small towns; they had no reason to fear that the Handels-Gesellschaft would invade their territory (any more than the international banks outside England had any need to look upon the Midland Bank[1] as a competitor).

As the Handels-Gesellschaft was an institution entirely sui generis, so Fuerstenberg was a type completely

[1] The Midland Bank has no foreign branches—see page 351.

different from any other, and an eminently quick-witted one to boot; the phrases coined by him were always to the point, if sometimes unkind, and he himself admitted that occasionally his ready tongue ran away with him, making him say things which, whilst amusing at the time, tended subsequently to put him in an awkward position.

The Handels-Gesellschaft was first and foremost an issuing and Stock Exchange bank, and accordingly included among its assets more investments than any other bank; it could afford this, as it attached no importance to the acceptance of deposits, which might fall due for repayment any day. No other bank approached it in the art of making issues, and the ability to place large amounts of stocks and shares, and this although it had no branches. Whilst others may have had more numerous relations with industry, yet those of the Handels-Gesellschaft were by far the closest, and not only on the financial side were the destinies of a number of electrical concerns and foundries influenced at least as strongly by the chiefs of the Handels-Gesellschaft as by their own managements. Fuerstenberg had been the first, towards 1890, to recognise the increasing importance of coal mining in the Ruhr district, and he had also entered into firm relations with the Harpener Bergbau, in Dortmund, the most powerful coal undertaking in Germany and Europe; his influence as one of its directors was immeasurably greater than that of Robert Mueser, the general manager of the Harpener, on the Board of the Handels-Gesellschaft.

Strongest of all, in fact, the closest between bank and industry in Germany, was the connection with the Allgemeine Elektricitaets Gesellschaft (A.E.G.). Fuerstenberg, the banker, was the President of the electrical concern, Emil Rathenau, the engineer, was Chairman of the Handels-Gesellschaft, being succeeded in that office by his son, Walther.

Even the most eminent banker is liable at times to let himself be swayed by purely human motives. In the house of Rathenau a family drama was enacted which did not

remain altogether hidden from the outside world; the father saw quite plainly that he was doing his son a gross injustice by not allowing him to rise to an important place in the A.E.G. which he himself had founded and which he ruled with autocratic powers, but he was utterly unable to make a change. Fuerstenberg saw the development of the conflict in which father and son suffered equally; he intervened and called Walther Rathenau, a man of vast intellectual powers and immense culture, to the Handels-Gesellschaft, where for five years (1902 to 1907) he ranked amongst the active bankers.

The connection with the A.E.G. gave rise to an enormous number of financial transactions of every kind both at home and abroad, from works for the supply of current to individual communes to the harnessing of the water power of the Victoria Falls.

In addition the sphere of activities of the Handels-Gesellschaft extended, if not over the whole world, yet over the whole of the Stock Exchange List. Besides the electric and mining industries, tramways, real estate (considerable business, sometimes of a speculative character in this direction), German Colonial ventures, the Balkans[1] and in particular Serbia, were the chief departments of Fuerstenberg's work.

In 1903 the Berliner Handels-Gesellschaft became interested in Hallgarten & Co., of New York; Fuerstenberg became a sleeping partner, Hans Winterfield, one of his younger collaborators an active one, in the bank. A business which naturally aroused great notice developed out of this connection: in the early years of the present century a fundamental change had gradually taken place in the relations between Europe and the United States; America began to be financially independent, and huge portions of

[1] In Bucharest the Banca Marmorosch Blank & Co. was founded in 1904 (in conjunction with the Darmstaedter Bank), in Belgrade in 1910 the Bank Andreevits & Co. Other banks in which the Berliner Handels-Gesellschaft was interested were the Schweizerische Bankverein (1872), the Deutsch-Asiatische Bank (1889) and the Banca Commerciale Italiana (1894).

the issues which, during the economic reconstruction, had been placed over here, were brought back as the recovery of the country proceeded. In Europe, on the other hand, conditions were, under political influence, becoming noticeably complicated, although in Germany only a few had a correct grasp of the situation, and those who did recognise the signs of the coming storm, amongst them Carl Fuerstenberg,[1] lacked the necessary acumen to draw the needful conclusions. The French reply to the sending of a cruiser to Morocco was the withdrawal of considerable credits from Germany, and Berlin began to run short of money. The New York market was liquid and had remained in a healthy frame of mind, and Fuerstenberg made use of the favourable opportunity; he took up eighty million marks of Prussian Treasury bills and placed the whole in New York through Hallgarten & Co. America the debtor, had become transformed into America the creditor.[2]

This was the first great financial deal in which Germany applied for credit to the United States.

Of the many transactions effected by Fuerstenberg, the one he looked back upon with the greatest pride was when, in 1904, he, generally the aggressor, had to take the defensive, and in a magnificently conducted modern financial war had tactically and strategically most brilliantly thwarted the attack of the (Prussian) State on private business enterprise and continued to keep the control of the Hibernia Steinkohlenbergwerk in his own hands.

The sale of the Treasury Bills to New York and the struggle over the Hibernia have become financial history.

[1] See page 247.

[2] Matters proceeded in such a truly "American tempo" that during the world war the United States financed England and the Entente, and to-day Europe is enormously indebted to her former debtor.

SUMMING UP

WILHELMIAN MENTALITY—LIBERTY OF DECISION

IT is obvious without further argument that after the cataclysms—first in 1914, then in 1919 and finally in 1931—the German banking policy inaugurated by Siemens can only be considered ex post. At the same time this must not prevent us from saying that for pre-War Germany the policy was the best that could have been devised, and it was responsible for the fact that the financial situation required at the most three decades for an immense upward movement which would probably have been impossible under any other system and quite definitely impossible under the much more slowly moving conditions in England. It is no less probable, on the other hand, that any other financial policy would not have led to a war (and assuredly not to the one that broke out in 1914); the expansive and expensive ambitions of the Government, however, found some of their strongest support in the Board rooms of the banks.

Those who were by their position called to be the leaders of the financial situation and the managers of the assets (which it was their duty to keep liquid) of the nation ought—after Tangier in 1905, after Algeciras in 1906, and subsequently after the discussions on Morocco in 1911—to have known and recognised what kind of wind was blowing in Europe—and they did in fact know it. Exaggerating the principle that optimism alone will enable great achievements to be performed, they felt themselves, in spite of all warnings of which there were plenty right down to the closing of the gates, compelled to look to the future with a certain amount of confidence.

No great purpose can be served by studying these subtleties in detail. The frame of mind, alternating between hope

and fear, which prevailed in financial circles during the years before the war is reflected with shattering clarity in a letter of Carl Fuerstenberg; he wrote it on the 25th September, 1911, and the fact that the addressee was the strongest, most powerful and therefore best hated of all the voices in the wilderness, Maximilian Harden, the great journalist of the Wilhelmian era, further increases the tragedy of its contents. "... In all it is about half a milliard which the world has entrusted to us (the Berliner Handels-Gesellschaft), 300 million Marks of creditors, and not much short of 200 million Marks at the current market price of the share capital. The creditor wishes to reserve to himself the right of being able to deal with his credit balance at the bank, the shareholder demands profits, and in connection with them, a corresponding Stock Exchange quotation. All this presupposes quiet times, and so far as these do not exist, the defender of the interests entrusted to him must do his best, with the means at his command, to ensure that calm prevails.

"It is of no use to us bank directors to have any appreciation whatever of what the future may hold; we are utterly unable to prepare for it unless we are willing to do a very great mischief in the present. If we should have any views as to what may happen in the future, the divergence in the time factor is still too great to enable us to make any kind of arrangement. ... We unfortunate men who have to conduct the affairs of a bank cannot base our calculations on distant happenings. We have to consider the making-up prices and monetary conditions at the end of September. We are always face to face with the necessity of basing our views on what the immediate future holds. If circumstances should require us to consider the near or the more distant future, we shall do our best to arrive at the most favourable conclusion, for, as we are after all powerless, we do not want to make our lives more difficult by ourselves laying additional burdens on our shoulders, nor to render the fulfilment of the duties of our office impossible.

Therefore circumstances compel us to undertake the

defence of the actions of others for whose mistakes our institutions would have to pay. . . ."

It is doubly difficult, after all that has happened in the meantime, to appreciate fully this mentality, the mentality of the Wilhelmian era, and there can be no doubt now that the money powers did not wait till the war[1] to become mere mouthpieces of the Government, and that they had long before lost the liberty of decision.

Once more we must take the testimony of Carl Fuerstenberg who was anything but a courtier and refused all high honours and titles which were offered to him—a fact that makes his statement all the more remarkable. "It was not an easy task," he wrote (on the 24th June, 1909) to a friend, "to prepare a corresponding appreciation on the German Stock Exchanges for the most important speech of the Emperor, but my bank has been able, in spite of the strong currents in the opposite direction . . . to carry it through, and it has been a pleasure to us to do so, even at the cost of some sacrifice."

These lines, which require no comment, clearly express the whole situation: with the resources and at the expense of a bank an artificial rise was staged on the Stock Exchange in order that the erroneous belief should be aroused especially in him who delivered it, that an Imperial speech had made an optimistic impression in financial circles.

The letter ad usum imperatori was written to one of His Majesty's most intimate friends, Albert Ballin, the great organiser of the Hamburg-American Line, who was again and again called in, right down to the last days before his own end and that of the monarchy, when the task of telling the Emperor the *truth* was deemed to others to be too hard.

[1] When the war broke out, the banks formed fours just like a Company on the command of the Sergeant-Major, in the van the Reichsbank which, from a note-issuing bank turned itself into a note-issuing factory. The Bank of England did at least make a serious attempt to carry out its duties conscientiously.

The whole wretched business, by whatever name it may be called, in which the economic Germany has since 1914 been getting more and more entangled, would long ago have collapsed if "the Banks had not helped to bear the economic sin." (1922 in the third edition of "Deposit Banks and Speculation Banks" by Adolf Weber, the first edition of which appeared in 1902).

BERLIN

(DELBRUECK, LEO & CO.; DELBRUECK, SCHICKLER & CO.)
—ROBERT WARSCHAUER & CO.

S. BLEICHROEDER; GERSON VON BLEICHROEDER AND BISMARCK—
MENDELSSOHN & CO.

IN no way is it possible to compare the development of the Prusso-German Capital directly with that of a city like London, and most especially not considered as a financial centre. It may suffice to say, by way of illustration, that at the latest round about 1815, when during the Regency Nash gave her a new façade, the sea-port on the Thames, which was connected by shipping with the whole of the mercantile world, became a magnificent international metropolis, the Imperial Capital; Berlin, built on the arid sandy soil of the Mark Brandenburg, was not transformed from a gigantic village into a town till the middle of the eighteen 'seventies, and did not become a capital city till the 'nineties.

Very different were the conditions in the far wealthier Frankfort; although at the end of the eighteenth century its inhabitants numbered barely thirty thousand, yet forty-five bankers did a large and profitable business; in Berlin, on the other hand, where there was no commerce worth speaking of, and where capital reserves were totally absent, a very few sufficed, and their number can be ascertained only with difficulty, as most of them carried on their financial business merely as a side line. During the peaceful years which followed on Waterloo, the scope

of their activities was extended, and very gradually spread beyond the borders of the country. At first on a modest scale, they had by about 1855, when the first joint-stock banks (Disconto Gesellschaft and Berliner Handels-Gesellschaft) also made their appearance, grown into money powers, but they hardly became prominent until after the conclusion of peace at the end of the war with France. At that time the struggle with Frankfort for financial supremacy began; when the new Imperial capital had at last obtained the final victory, the joint-stock banks shared the spoils; the day of the private banker had passed at the turn of the century.

Amongst the oldest established were H. F. Fetschow & Sohn, never of outstanding importance, and Anhalt & Wagner, also going back to 1775, who came most prominently into the foreground when in 1901 they collapsed somewhat noisily. Gebr. Veit & Co., a high class commission business which never aspired to great financial transactions, survived till 1930, but did not rise to any great heights; they stood for a time, though not generally advertised, in connection with the Paris Rothschilds. Till long after the establishment (in 1803) of S. Bleichroeder and of Mendelssohn & Co. (in 1805 in Hamburg) the unquestionably leading banking house was Gebr. Schickler (founded in 1795). The middle of the century saw the formation of Robert Warschauer & Co. (1849); Meyer Cohn (1855), who were absorbed by the Disconto Gesellschaft, and I. T. Goldberger[1] (1856) who in 1888 were transformed into the Internationale Bank, and after a somewhat stormy voyage finally found, via Breest & Gelpcke, a safe anchorage in the Berliner Handels-Gesellschaft. Delbrueck, Leo & Co., whose partner Adalbert Delbrueck in 1870 assisted at the birth of the Deutsche Bank, followed in 1858, and ten years later (1866) came Born & Busse who for a time were a very high class and important concern and in 1907 were merged in the then Nationalbank, fuer Deutschland.

[1] For Ludwig Max Goldberger, head of the Bank in the second generation, see note, page 29.

The only other member of the group worthy of remembrance, apart from the still surviving Delbrueck-Schickler, whose separate origins and subsequent union is mentioned in the chapter Deutsche Bank is ROBERT WARSCHAUER & Co.

In the days of the boom following on 1871 they rose to great importance and were only very slightly behind the greatest, the Bleichroeders and the Mendelssohns. But they also met their fate about the turn of the century, when the retirement of a partner forced them to find a sum of twenty million marks, an amount which strained the resources of even this great house. The Italian and Russian business which the Warschauers had built up constituted a most desirable asset, and this induced the Darmstaedter Bank to take a majority interest in the firm which thereby took the first step towards the loss of its independence and separate existence. When the agreement ran out in 1904, it was not renewed, and the greater part of the current business as well as the high class connections passed into the hands of the Darmstaedter Bank; Robert Warschauer & Co. survived for another year a mere shadow of its former greatness, carrying on those accounts which the bank had not been willing to take over, and then came its dissolution.

From this time on the history of Berlin as a financial centre is solely the history of the joint-stock banks. Amongst private bankers only S. Bleichroeder and Mendelssohn & Co. could claim to be reckoned amongst the international money powers, to which class also belong M. M. Warburg & Co.,[1] in Hamburg.

Samuel Bleichroeder, who started his quite small and modest discounting business in 1803, died in 1855, and so did not live to see its glory, nor did Gerson, the son, survive to witness its slow decline from its leading position.

Three suns of confidence shed their beneficent rays on S. BLEICHROEDER—the Rothschilds, the first German Emperor, and, strongest of them all, Bismarck. During his

[1] See Appendix page 396.

Frankfort days he stood on quite friendly terms with Amschel Meyer von Rothschild, the senior of the five brothers, then already of great age; the banker had told the statesman many amusing things, and on occasion most interesting and important news. Bismarck thus had grown to appreciate the value of a connection with the financial world which he was anxious to keep up in Berlin and most emphatically insisted that only a banker of the Jewish persuasion could be considered. Rothschilds recommended Gerson Bleichroeder, their representative in Berlin, a man of extraordinary mental gifts and still greater personal charm. That he exerted himself to the utmost to be as useful as possible to the great Chancellor goes without saying, but in these activities he considerably over-estimated his personal importance. He never became the diplomatic factor he imagined himself to be, nor did he ever achieve the intimacy which Solomon de Rothschild enjoyed with Metternich. As, however, he frequently had, through his great friends, much better information about what was going on in London, Paris and Vienna, and as to the feeling in the haute finance and on the Stock Exchange than the official diplomatists could obtain, he was eagerly listened to at the Foreign Office. On the other hand, the men at New Court and in the other bank parlours had little doubt as to what eventually became of the information Bleichroeder thus acquired, and they were correspondingly cautious. Bismarck, again, brought to the banker's ear only just so much as he thought advisable; he counted on indiscretion, and told him many things with the sole purpose of their being passed on to the other capitals. It would seem, therefore, that Bleichroeder was used rather than informed by both parties, and it is more than likely that on occasion he was worse informed than would have suited his own personal book.

Bismarck's private financial affairs were also in the hands of Bleichroeder. The question whether, (as has been maintained not exclusively in obscure pamphlets) the statesman did perhaps actually speculate with the banker or did not

rather change his investments in accordance with the political situation, even before the new configuration had become public property, has never been satisfactorily settled. Several times during Bismarck's lifetime the authors of such rumours had to answer for their activities before the Courts, and they were regularly and promptly found guilty of slander (as for instance Landrat von Diest-Daber who in one of the most sensational of the so-called "Bismarck lawsuits" was sentenced to three months' imprisonment). But the matter was never actually cleared up.

Varied and important were the tasks entrusted by Bismarck to the man who enjoyed his full confidence, and who in this way became the financial adviser of Prussia and Germany and consequently a first-rate power; Bleichroeder was summoned to Great Headquarters at Versailles as chief expert to help fix the indemnity to be demanded from France (his opposite number at Thiers's side was Alphonse de Rothschild). Together with Adolph von Hansemann he was called in when the collapse of Strousberg threatened to involve the latter's highly aristocratic partner, and when the State was engaged in acquiring the railways S. Bleichroeder was the Government banker. This was the most profitable of all his ventures; the purchases of shares, however, were at times on such a scale that even the vast resources of the firm did not suffice to carry them out single-handed, but his wealthy friends abroad were always willing to supply financial backing, and the Rothschilds accordingly made considerable profits out of these transactions.

With increasing success Gerson von Bleichroeder (the title dates from 1872) grew more and more obstinate and domineering both in his office and in his home; on the occasion of a reception given by him to welcome in the New Year the guests were waiting with their glasses filled for the signal to be given, when one of them, whose watch kept excellent time, pointed out that the proper moment had arrived, but the host put aside such interference with the

words, "In this house I decide when midnight comes"—Argentarius supra astronomos. Even towards Julius Leopold Schwabach, a distant relative who, after the premature death of his parents, was left alone in the world and was taken into the firm as apprentice, subsequently thanks to his extraordinary intelligence and vast knowledge being made a partner, he liked to show that he was absolute master of the Bank.

After the death of Gerson von Bleichroeder—he left an estate thought to amount to between four and five million sterling—the leadership, together with the office of British Consul-General which old Bleichroeder had occupied, passed to the son of Julius Leopold, Paul (since 1907 von) Schwabach.

As early as the opening years of the present century S. Bleichroeder was no longer what it had been. After the world war it became increasingly less important; a close connection with the very active H. Aufhaeuser, of Munich, did not bring the expected improvement in business, and although still nominally independent, the house carries on in conjunction with Gebrueder Arnhold, coming from Dresden, who in the last thirty years have gradually risen to the very front rank, but S. Bleichroeder is only a mere shadow of what it once was.

Complete independence and great reputation has been maintained down to the present day by MENDELSSOHN & Co., the strongest and most high-class private bank in Berlin and in Germany, which has grown out of the small and insignificant discounting office opened in 1795 under the name of J. A. Mendelssohn, in Berlin, by Joseph, the son of the philosopher Moses. Ten years later he was joined by his brother, Abraham[1] who in 1803 was cashier in the office of Fould, Oppenheim & Co., of Paris, subsequently made

[1] Abraham Mendelssohn used to say of himself, "Formerly I was the son of my father (the great philosopher) and now I am the father of my son," the composer Felix Mendelssohn Bartholdy. The addition of the name Bartholdy had a peculiar origin. The maiden name of Abraham's wife was Leah Salomon, whose elder brother had adopted the name of Bartholdy after the former proprietor of a garden which

famous by Achille Fould and the foundation of the Crédit Mobilier. The firm now called itself Mendelssohn & Co., and under the most intelligent and soundest management, without ever going in for exciting or even striking transactions, constantly and without set-back grew in importance. By the middle of the century they were among the first, at its end among the very first, and by the opening of the new century they had gone ahead of them all.

It was their unique position as bankers for Russia that made their phenomenal rise possible; the vast deposits which that country maintained with them for the service of its coupons and the market manipulation of its loans were a constant and appreciable source of profit, and made them one of the greatest and at times the greatest lenders of money in the market. That the Czarist Government was regularly able to some extent at least to recover from its many unfortunate wars and its internal difficulties was due in a considerable measure to the Mendelssohns, who on occasion allowed their embarrassed but never actually insolvent client to avail itself of the liability side of their books also.

They resemble the English banks proper in that they are the only one amongst the great German money powers which carries on no kind of industrial transactions, and it is only in quite exceptional circumstances that they appoint one of their partners to the Board of a limited company.

In business and in private affairs and in their furthering of scientific and artistic efforts the Mendelssohn family carry on the greatest and finest traditions.

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he bought (and which subsequently passed into the ownership of Mendelssohn). At the request of his brother-in-law Abraham also took that name. His grandson, Ernst von Mendelssohn-Bartholdy, who received a title in 1896, obtained the great distinction of being the only one amongst all the active German Bankers to be made Wirklicher Geheimer Rat, with the title Excellency.—Joseph's, grandson, Franz received a title in 1888.

FRANKFORT, THE TRAGEDY OF A CITY

Money Powers in and from Frankfort

GEBRUEDER BETHMANN—LADENBURG—THE ERLANGERS—SULZBACH—THE STERNS IN FRANKFORT, LONDON AND PARIS

As far back as the second half of the sixteenth century, when Antwerp was losing ground owing to the unrest in the Netherlands, and Lyons was suffering from the religious wars, the City on the Maine which Luther called a "Geld und Silberloch" (a hole full of money and silver) rose to international importance. Its unique situation, a few miles away from the greatest European main road which connected Holland by way of the St. Gotthard with the ancient trade emporium of Venice, in the centre of the most fertile district of Germany, made it first the natural centre of the blessed Rhineland, then, when it became the scene of the Election and the Crowning of the Emperors, and subsequently the seat of the Federal Diet, the political focus of the whole country.

In the eighteenth century its Stock Exchange already occupied a prominent position, and when after the conquest of Holland by the French in 1795 Amsterdam for the time being ceased to count in international finance, it assumed the lead.[1] Its real birth may be placed in the ten years which followed Waterloo. The enormous expense of the wars had drained the Continent utterly dry, and only three great money centres were left—the inexhaustible London, the reawakening Amsterdam and the newly-arrived Frankfort.

[1] In 1804 as many as 26 State Loans were being quoted in Frankfort; in Berlin, where altogether there were only 11 quotations (6 mortgage bonds and 5 shares) Government Stocks were totally absent.

For half a century all told Frankfort was the foremost money power in Germany and in Europe; in 1866 the decline, about thirty years later the collpase began.

Of the very early banks the relatively presentable number of four have survived the centuries and their storms. Johann Mertens (1605), D. & J. de Neufville (1650), Joh. Goll & Soehne (1660), B. Metzler Sel. Sohn & Cons. (1674).[1] Gebrueder Schuster[2] was formed over a century later, in 1786.

GEBRUEDER BETHMANN

joined their ranks in 1748, and were the first in Germany to understand how to carry on Loan business. The Austrian finances, which were constantly in need of reorganisation, were put on a sound footing under their management in 1775, all the German States, both great and small, became their customers, and in 1806 extensive transactions with Denmark, which brought the bank considerable profit, attracted attention. Under Simon Moritz von Bethmann, (the son of the founder), a statesman in business, this bank outstripped all other Frankfort bankers and, taking the lead both in commerce and in Society, contributed enormously to the increase of the reputation of the city throughout the world.[3]

During the Napoleonic war, when all other financial centres grew impoverished and deserted, the importance of the Free Imperial City became still greater when in 1803 the ROTHSCHILDS, having outgrown the stage of money-changers and dealers in coins, made their entry into the

[1] When Metzlers made the first official Loan to Prussia in 1792, their associate in the transaction was the banking house of Willemer, which was of considerable importance for a time, but became more famous in a literary connection: Marianne von Willemer (who married Johann Jakob in 1814) was Goethe's friend and the Suleika of the poet's "West Oestlicher Diwan." Some very excellent poems in that work are from the hand of Marianne.

[2] See Appendix page 397.

[3] For a time Bethmanns maintained a house in Paris; Hugo von Bethmann, who stayed in Frankfort till 1882, joined the bank of von Kienen & Co. there, which after the death of von Kienen was known as H. de Bethmann & Cie., but went into liquidation before the outbreak of the World War.

ranks of the bankers. It was useless for the Bethmanns and the other Patrician families on 'Change to turn up their aristocratic noses at the newcomers who had been born in the less salubrious air of the Ghetto; they had arrived, they had to be reckoned with, more and more frequently and more and more forcibly, and the succeeding two decades of Frankfort's Commercial History were the account of a struggle for dominance on the Stock Exchange and in finance which ended in an overwhelming victory, never before experienced or since, in favour of the daring interlopers.

Nevertheless the Bethmanns were never entirely driven out of their strong and established position; even in the days when they had to some extent dropped into the background they always maintained their ability to carry out great new transactions; they were the first to introduce (1886) on the Frankfort Stock Exchange an overseas loan which did not proceed from North America—the five per cent loan of the City of Buenos Ayres. Looked at from their strong keep, founded on a tradition nearly two hundred years old, the seventy—at most eighty—years of Rothschild predominance were little more than an episode. When M. A. von Rothschild & Soehne disappeared from Frankfort in 1901, and in 1934 Lazard Speyer-Ellissen ceased to exist, Bethmanns automatically advanced once again to the first place; meanwhile the development has so far advanced that there is nothing left to lead.

All those who succeeded the Rothschilds and also rose to great eminence have, without exception, vanished—E. LADENBURG[1] and VON ERLANGER & SOEHNE[1] were absorbed by joint-stock banks. Lazard Speyer-Ellissen (see the Chapter "The Speyers") went into liquidation—and the few survivors of an important era, such as GEBR. SULZBACH[1] and Jacob S. H. Stern, now also on the point of retiring, are but shadows to-day as compared with the time of their glory.

[1] See Appendix page 397.

At the beginning of the nineteenth century, the head of the ancient, wealthy and respected family of

STERN

which can trace an unbroken history in Frankfort back to 1530, was Samuel H. Stern, who since 1799 had been a wine merchant. He left two children, a daughter Caroline, who in 1800 married (Baron) Solomon (de) Rothschild and became the ancestress of the Vienna branch of that family, and a son, Jacob Samuel H. Stern, who from 1819 on continued the paternal wine business, gradually transforming it into a bank under the name of Jacob S. H. Stern.

In the 'sixties this bank entered the front rank; so strong had they grown that, together with their great relatives in Paris (A. J. Stern & Cie) and London (Stern Brothers) and without calling in any outside associate, they were able to finance the Italian Tobacco Monopoly. The Argentine, Turkey and Bulgaria were their ever impecunious clients, whose loans they helped to float; in 1886, the same year in which the Bethmanns introduced their Buenos Ayres bonds, Jacob S. H. Stern brought out, though not without considerable opposition on the part of the Press, the first Portuguese loan[1] on the Frankfort Stock Exchange, and it soon became evident that the criticism had been fully justified.

Immediately after its formation the Deutsche Bank had entered into relations with this powerful house; during the early years of the alliance, and especially on those occasions when they placed their great reputation at the disposal of the joint-stock bank, which was not as yet widely known in foreign countries, the Stern's were the givers. Subsequently the bank invited their participation in almost every one of their important transactions at home and still more abroad; the connection

[1] In London the first Portuguese Loan had been introduced in 1823, and when Portugal recognised the independence of Brazil, that country undertook the service of the loan.

There has to this day been no settlement of the second, the so-called Miguel, loan of 1832.

between the two establishments became particularly close at the time of the collaboration of Georg von Siemens with Otto Braunfels, a personality of outstanding importance in international finance, who for many years represented his firm of Jacob S. H. Stern on the Board of the Deutsche Bank and of the various companies which they had jointly promoted. It was during the reorganisation of the Northern Pacific Railway (described in the Chapter on the Deutsche Bank) that their extensive co-operation came most visibly before the public.

Even before the general downward march of the last few years, inauspicious times and a new generation of partners had caused the banking house to disappear from the front rank; to-day, in the middle of 1937, it has decided, taking into account the economic situation and the political position in Germany, after an existence of nearly a century and a half, to go into liquidation.

The founder of the firm in Frankfort, Jacob S. H. Stern, had twelve children; of these, Abraham Jakob and Leopold emigrated to Paris and founded A. J. Stern & Cie,[1] David and Hermann went to London, where in 1844 Stern Brothers came into existence. The greatest triumph of the international banking combine was the five per cent French loan introduced on the Paris and London Stock Exchange in 1872, and in which the Frankfort house was one of the few German establishments to take an important share; the enormous success of this loan[2] made the name of Stern historic in the world of finance.

The house in London developed into a firm of merchant bankers of prime importance; they financed telegraph lines abroad, railways in Spain, with the sole co-operation

[1] The firm, which is still very wealthy, has almost entirely retired from active participation in affairs, and whilst at present a member of the Banque de Paris group and interested in its transactions, is mainly engaged in the administration of its own fortune.

[2] See page 165.

of their relatives in Paris and Frankfort (as mentioned in connection with the latter) the Italian Tobacco Monopoly, and acted as bankers for the Portuguese Government. The latter country brought the partners their first tangible honours; Hermann Stern[1] became Baron in 1864, and five years later David, after a loan on terms particularly favourable to the borrowers, was created Vicomte.

As the Sterns' wealth increased, however, their spirit of enterprise drooped; in the new generation fewer and fewer new transactions were promoted, and to-day Stern Brothers is little more than an office for the payment of coupons on the loans which they issued in the past; the firm is very rich, but has ceased to be a power in the City.

[1] Hermann Stern's son Herbert, made a Baronet in 1905, was in the same year created a Peer, taking the title of Lord Michelham; Sydney James, David Stern's son, was in 1895 raised to the Peerage as Lord Wandsworth (now extinct).—Edward Stern, another son of David Stern, was knighted in 1904 and received a Baronetcy in 1922. During the World War a younger partner in the firm, Sir Albert, son of James Stern, a brother of Lord Michelham, made a name as Director General of the Mechanical Warfare Department, and in that capacity contributed appreciably to the technical perfecting of tanks.

FRANKFORT AND AMERICA

At least twenty years before it began to concern itself with railways at home the Frankfort Stock Exchange was interested in American rails; a curious combination of financial circumstances with personal connections, the latter being perhaps the most important factor, were responsible for the fact that for over half a century the financial relations between Germany and the United States could, with very few exceptions, be identified with and did not go beyond those existing between the Frankfort and the New York money powers. Even after the advent of the joint-stock banks, the management of finance was on the other side still in the hands of bankers who had originally come from Frankfort.[1]

The history of American Rails, noted and notorious, is the story of their collapses. Just as in South Africa only a small proportion of the mines were floated for the purpose of digging for gold, so in America it may be said that the first lines of rails, at least, were not laid for the purpose of carrying passengers and goods: the aim of those who were in charge of their construction was to make a profit out of their promotion and out of the manipulation of their shares.

The first railway in the States, the Baltimore & Ohio, opened in 1828, was rather like a white blackbird, as it did not come to grief till 1899. The much younger Erie, the child of sorrow to all, might at about that time have celebrated a jubilee of its crashes; of this line it used to be said that the difference between it and other lines was simply that

[1] See page 398.

other companies sometimes paid dividends to their shareholders, but that the Erie regularly made assessments on them; on American railway dividends in general the joke made the round that the classic quotation ad calendas graecas was an apt description of their due date.

In London the first American railway securities were quoted towards the beginning of the 'thirties, but only spasmodically; they vanished from the Stock Exchange list in 1837, when the panic broke out on the other side of the Atlantic. A year later, however—Stock Exchanges have a curiously constituted memory: events are rapidly forgotten, personalities never—the stock of the Camden & Amboy was again being quoted on the market, and Yankees were definitely established, never again to disappear from the list.

The date of America's first approach to Europe as a borrower on a grand scale was 1840. Of the three banks—the Barings, the Rothschilds and subsequently the Speyers—which became prominent as the chief intermediaries between the two continents, two had their roots in Frankfort; bonds came into the market which the English contractors had received in payment for material supplied and work done.

These bonds were taken up in Frankfort from about the middle of the century. Interest in them had been aroused through the more and more numerous threads which connected the Maine with the Hudson—Seligmann & Stettheimer,[1] in Frankfort, were for a time the official bankers to the United States—and was kept alive through exchanges of views in private letters which contained more valuable and more intimate information than business reports. In this way developments across the Atlantic were watched with a trained eye, and expert knowledge enabled discrimination between the sounder and the less sound bonds, when in 1861 the Civil War broke out.

The whole American nation was an armed camp; guns, ammunition, clothing, everything had to be bought in

[1] The Seligmanns (who had migrated to Frankfort) became international; the New York house was known as J. & W. Seligmann, the London house (from 1864 on) as Seligman Brothers.

Europe, and as means of payment railway bonds of all kinds and United States six per cent bonds which for a time stood as low as forty per cent[1] found their way across the Atlantic. Nearly every country participated, the greatest share going to England through London, the next largest to Southern Germany through Frankfort. All American securities stood at a fraction of their pre-war quotations, and far-sighted and daring people obtained huge returns on their investments. Many millions were earned, and both investors and finance houses laid the foundation of vast fortunes merely by holding on to the securities which they had purchased. During those years new money powers arose in Frankfort, and the existing ones added to their wealth.

[1] Upon victories of the Northern States they rose as high as 73 per cent, but on the assassination of Lincoln in 1865 they dropped back to 69.

THE MENTALITY OF THE FRANKFORT MONEY POWERS

FRANKFORT AND PRUSSIA

THANKS to the enterprise of its citizens Frankfort had become of international importance; in London, Manchester and Bradford, in New York, Amsterdam, Brussels, Madrid and Milan, in Constantinople, Alexandria and Batavia, men from Frankfort were at the head of the greatest undertakings, and their creative activities brought increased turn-overs and material for new transactions to the markets at home. All over the commercial world the name of the city stood high at a time when Berlin was almost unknown. International Arbitrage[1] business may be said to have originated in Frankfort and spread from there to London, Paris, Amsterdam and New York, and for many decades it was the sons of Frankfort who in each of those places held in their hands the threads of this difficult and complicated branch of banking.

That Frankfort should within the space of barely thirty years have sunk from its proud eminence to complete insignificance can in the main be explained by the altered mentality of its money powers. That the unusually vast fortunes which in the second half of the century were accumulated out of banking and Stock Exchange transactions should have hampered enterprise was a phenomenon everywhere noticeable, but only in Frankfort was a growing inclination also visible to hamper the enterprise

[1] Arbitrage (arbiter—umpire, judge) is the exploitation of the difference in the quotations of a stock or share dealt in on several Stock Exchanges.

of others—of those whose wealth had not yet reached saturation point. In the 'sixties it used to be said of members of the Frankfort Stock Exchange that they did not like "to see any one weep, nor to see him laugh," (it was a fact that those who had got into financial difficulties were helped, although perhaps more generously than secretly, yet still generously, to find their feet again). Gradually, however, they came to prefer that no one should laugh: they grudged others their place in the sun and would not let them prosper. In comparison with this change in mentality, the change in the political configuration played an appreciably smaller part.

Feeling on the Maine was definitely hostile to Prussia, and everything which hailed from Berlin was straightway looked upon with the deepest distrust. In the struggle for supremacy in Germany Frankfort had taken the wrong side, had joined Austria, and when that country was beaten, the hitherto independent Republic lost its sovereign status, became a Prussian provincial town, and, as a punishment for its bad behaviour (in addition to the imposition of an indemnity) was even prevented from becoming the seat of the higher Provincial Authorities, which were transferred to the neighbouring but much smaller Wiesbaden. Appeals to the King and to Bismarck met with no success—Frankfort was and remained relegated to a subordinate place. The only political privilege which it retained in the State was that it had the right to elect a Deputy, and the outstanding esteem in which the city's leading money power was held is well illustrated by the fact that in 1867 not a member of one of the old Patrician families who had hitherto ruled in the Senate was sent to the Parliament, but Meyer Carl von Rothschild.

Three years later Berlin became the capital of the new Empire. The introduction of the new currency brought further losses to Frankfort, for the exchange business in the manifold South German currencies which had centred there, came to a sudden stop, and at the same time an end came to the vast turnover in foreign currencies brought

by wealthy visitors to the neighbouring (health resorts and) gambling places of Homburg, Wiesbaden and the not very distant Baden-Baden, for under the stricter new regime the gaming houses had been closed. Of yet greater effect on the initially slow decline was the fact that the Frankfort money powers refused, partly from distrust, but still more from sheer insane opposition, to adapt themselves to the altered financial conditions prevailing around them, and, for the time being, maintained their hostility to industry. So it came about that, with very few exceptions, the considerable funds available were, out of petty prejudice and shortsightedness, not put at the disposal of the economic reconstruction of the Reich which was taking place, and Frankfort took no part in the enormous boom of the eighteen seventies.

In any case the aim of the Government was to transfer every activity to the capital, and Frankfort clearly did everything in its power to make the victory easy. Berlin now opened its doors to the newly established joint-stock banks, but the city on the Maine remained just as hostile to the banks as when, in 1853, it refused admission to a great new undertaking—which was accordingly forced to set up its headquarters close to the gates of Frankfort, at Darmstadt; and so not one of the big banks had its birth in the great metropolis of commerce and finance. With an energy worthy of a better cause its citizens also opposed the introduction on the Frankfort Stock Exchange of the shares in the railways situated in Prussia, and here again it was they who suffered the greatest (and most permanent) damage, for they had voluntarily excluded themselves from the important and extensive transactions accompanying the acquisition of the railways by the State.

Towards the end of the 'eighties the bankers began to see what a grievous blunder they had committed, but it was then too late. Frankfort's position as the chief investment market had gone. Berlin, at all times ready to set out on conquests—political and financial, and more rarely

moral, vanquished Frankfort politically in 1866, and during the following two, or at most three, decades financially too. Inevitably the city had sunk to a provincial level, and the Stock Exchange to an institution of no importance.

The year 1866 marked the beginning of a new great exodus: anti-Prussian feeling was general, and the majority with the means and good connections elsewhere emigrated to escape Prussian nationality, a movement intensified by the Jewish dread of Prussian antisemitism. After 1871 the migration gained in volume, to increase still more in the following decades; they were the best, ablest (and wealthiest) members of the second generation who left a city that no longer offered any scope for their ambitions, and where those who did succeed in making their way had no easy time. London, Paris and New York were the first great magnets, but now the growing Berlin also attracted many in Frankfort; at the head of the banking procession came, as early as the end of the 'sixties, C. Schlesinger-Trier & Co.,[1] and its rear was brought up in 1926 by Lazard Speyer-Ellissen, and it is a curious coincidence that the first comers were taken over by the last arrivals when their short-lived desire for expansion brought them from Frankfort to the capital.

Beginning with perhaps the last decade of the century, the Frankfort money powers would seem to have lost their power of combining wealth with a reasonable love of enterprise; they confined themselves more and more to the management of estates, never a very profitable department of banking business. Other important private and local banks were absorbed by the big banks when the latter came to Frankfort or extended their activities there.[2]

[1] The firm was known in Frankfort as J. C. Trier & Co.; controlled by Gebr. Sulzbach and by von Erlanger & Soehne. C. Schlesinger-Trier & Co., in Berlin, developed great activity and in addition to other large dealings, they introduced the shares of the Canadian Pacific on the Berlin Stock Exchange.

[2] The Deutsche Bank had in 1886 taken over the Frankfurter Bankverein and opened a branch. The Disconto Gesellschaft came to the city in 1901 when it took over M. A. von Rothschild & Soehne (see next chapter). The Dresdner Bank in 1904 absorbed the important von Erlanger & Soehne and settled in Frankfort.

The Darmstaedter Bank had come as far back as 1864, and until about 1900 was by far the greatest of them all. The very active Gust. Maier & Co. were merged in it in 1900.

Only the influence of the name and the vast capital of the Rothschilds enabled the town to maintain an exceptional position and gave it a certain amount of prominence, but the fate of Frankfort was irrevocably sealed when a circular was sent out, beginning with the ominous words, "It is our sad duty to inform you that——"

THE END OF A GREAT TRADITION

M. A. VON ROTHSCHILD & SOEHNE

"IT is our sad duty to inform you that in consequence of the decease of Baron Wilhelm Carl von Rothschild, the Banking house of M. A. von Rothschild & Soehne will go into liquidation. The Liquidators are (1) The Right Hon. Nathan Mayer, Lord Rothschild, London, (2) Baron Edmond de Rothschild, Paris."

It was not until every conceivable means of arriving at a different solution had been tried and had failed that the above circular was sent out in April, 1901; it was not lightheartedly that the Rothschilds decided to give up the ancestral house which had almost become legendary.

The senior of the Five Frankforters, old Amschel Meyer, had died in 1855 without children, and been succeeded by his nephews Meyer Carl and Wilhelm Carl, the sons of Carl von Rothschild,[1] the least important of the five brothers, who stood at the head of the house in Naples which was closed down in 1861, when Garibaldi drove the Bourbons out of the city and out of the State.

For the first two decades of his rule Meyer Carl, less agreeable, but far more capable than his brother, was an active business man. In the course of years, however, he turned his attention to far too many other things to be able to devote himself assiduously to the interests of his firm. He got together a great and important Art Collection,[2]

[1] Carl had three sons: Meyer Carl, Wilhelm Carl and Adolph. After his father's death in 1855, the latter managed the business in Naples until 1861, and then retired to Paris, where he devoted himself to books, art and flowers. The only daughter of Carl became the wife of Lionel de Rothschild of London.

[2] It is possible that the generous and munificent man, who gave the valuable library in Frankfort which until 1933 was known as the Rothschild Library (the

gave up a good deal of his time to his duties as member first of the North German Diet, then of the Reichstag until he was called to the Herrenhaus (the Prussian Upper Chamber). As Berlin came more and more into prominence, he spent a considerable part of the year there; Frankfort no longer attracted him sufficiently and gradually he withdrew from his real profession. He died in 1886, diligent to the last (he was found bent over a column of figures) and by then much of the old activity of the bank had vanished. He left no sons,[1] and instead of a younger head joining the firm, it passed into the hands of his brother Wilhelm.

Wilhelm von Rothschild, Baron Willy as he was known in Frankfort, was very different from his brother; the refined, peculiar gentleman, by nature a scholar, was of an almost morbid shyness, and never, if he could possibly avoid it, made a public appearance. His orthodox religious feelings would have considered it a sin to follow his inclinations and retire from the family affairs, and so he carried on mechanically, without inspiration or energy. The cousins looked with great disfavour on the idea that managers should be given the right to append legally valid signatures, but increasing age compelled Baron Wilhelm to abandon to some extent that strict Rothschild principle.

Side by side with the rate of the Reichsbank and the rate for prime acceptances, the (somewhat lower) Rothschild rate continued to be quoted in the Frankfort Stock Exchange list, but the last named no longer had its former importance,

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Rothschild Allee also has undergone a change of name, and with it many other streets which kept alive the memory of the city's great sons) would also have left his Art Collection to the town, if the peculiar mentality of its citizens had not aroused his ire. Opposite Meyer Carl's town house a weighing machine for coal carts had been erected, whose unavoidable noise and still more unavoidable dust were a constant annoyance to him—every effort to obtain its removal failed. So the collection went partly to Paris, partly, with its pièce de resistance, the renowned Christoph Iamnitzer Cup, to London. The share which his daughter Emma, the first Lady Rothschild, received, was sold by auction in April, 1937.

[1] Meyer Carl's wife was Louise, the youngest daughter of Nathan Meyer Rothschild of New Court. Of the seven daughters of this marriage, Adele became the wife of Salomon, a son of the Paris James, Emma married the first Lord Rothschild, Therese James Edward, a son of the London Nathaniel and grandson of Nathan Meyer. One daughter became Duchesse de Gramont, and the youngest Princesse de Wagram (two remained unmarried).

as the house no longer bought acceptances in accordance with their soundness, but simply as sympathy or antipathy moved it. Apart from these dealings the Bank hardly ever came into the market as lender; no advances were made on even the very best securities, and in the result enormous sums in cash, including some millions in gold, lay in the safes ready to supply cover for transactions—which were no longer entered into. Nevertheless, the name of Rothschild, which had almost ceased to be a name but had become an idea—an institution—possessed a glory which shone on the whole city and far beyond its borders. The wealth, the liberality and the high culture of the House of Rothschild were unique.

In 1899 Wilhelm and Mathilde von Rothschild[1] had the good fortune of celebrating their golden wedding. The Baroness was a very successful musician, and no singer who appeared in Frankfort would have dreamt of omitting to offer his homage to the influential local composer by singing one or two of her songs. Her excellent Art Collection, her pied-à-terre in Paris in the Avenue du Bois, and her extensive country estate at Koenigstein in the Taunus were acquired by her out of her own large fortune. It was not until much later, when her husband had often been her guest, that he humorously remarked that he "could not constantly accept the hospitality of strangers," and thereafter paid the costs of Koenigstein. Here the Baroness delighted in carrying out the duties of hostess, which owing to the peculiarities of her husband, she could not exercise in their Frankfort home, the Grueneburg. The Empress Frederick from the near-by Cronberg, Edward VII as Prince of Wales when taking the cure at Homburg, and Wilhelm II during his stays in the neighbourhood, never missed calling on her.

[1] Mathilde, who came from Vienna, was a daughter of Anselm von Rothschild, the founder of the Austrian Credit-Anstalt.

There were surviving two daughters of this marriage: Minka (Minna) the wife of (Baron) Max (von) Goldschmidt (-Rothschild) (see page 325 note) and Adelheid, who married one of the heads of the Paris house, Edmond who, the last son of James, the youngest of the five Frankforters, died as recently as 1935. The interval between the death of the last of the third generation of Rothschilds and the first death of a member of the second generation (Nathan Meyer in 1836) is no less than 99 years, surely a sufficiently rare occurrence.

Wilhelm von Rothschild died in 1901; the old banking house stood abandoned, and the whole family was face to face with a hard decision. That anybody but a Rothschild should continue the management of the Bank was out of the question; the widow did all she possibly could to persuade her younger relatives that at least one of them should come to Frankfort, and even the Emperor tried to exert his influence in that direction. But none of the young gentlemen in London, Paris or Vienna felt the slightest inclination to "go back" to Frankfort. There can be no doubt that political antipathies had their share in this decision,[1] still less that there were certain anticipations of German anti-semitism; on this occasion also the old well tried Rothschild flair did not fail them.

So there remained only one road open—the surrender of a great tradition and the liquidation of the bank; the current business and all participations were taken over by their old associate in the loan issue business, the Disconto Gesellschaft, which in this way saw an enormous increase of the most valuable connections drop into its lap without having to pay anything at all for the goodwill, for it would have hurt the sensitiveness of the family to make any profit out of the transfer of the firm. It must have been one of the rarest occurrences in the history of finance—in fact it was probably unique—that a concern of such importance passed into other hands without any consideration whatever.

The *Frankfurter Zeitung* wrote at the time (in April, 1901) that the surrender of the banking house of M. A. von Rothschild & Soehne was like "the voluntary destruction of a most valuable structure of confidence as firm as a rock, a renunciation of a first class issuing credit which it would not be easy to recreate on a similar scale." Without being accused of exaggeration, as things stand to-day in Germany the journal might well have written "which it will never be possible to recreate on a similar scale."

[1] A secondary, but not inappreciable part was played by the question of finding the necessary finance; as both the Frankfort partners had left only female heirs, the family would have had to supply the whole of the funds for the new firm.

THE SPEYERS IN FRANKFORT, LONDON AND NEW YORK

By far the strongest connection between Frankfort and Germany on the one hand and New York (and to a great extent London also) on the other was brought about and maintained by the Speyers; the outstanding position which they occupied in German-American affairs rested in the first place on their great capital strength, and secondly on the fact that the firms which the members of the family established remained (following the example of the Rothschilds) most closely connected amongst each other, as the leading partners of one house were at the same time partners in all the others.

With a capital which in 1800 was estimated at fl. 604,000, at a time when the Rothschilds with fl. 109,375 only occupied the eleventh place, the Speyers were during the thirty years from 1770 to 1800 the wealthiest Jewish family in Frankfort. Lazard Speyer-Ellissen, the original house (but not the first bank founded by a member of the family) was constituted in 1836. Considering that their activities lay on the Continent and—still more—in a town which was not a port for overseas trade, the firm recognised at an amazingly early date the potentialities of America, and with great courage and daring a house was opened in New York. There Speyer & Co., whose subsequent senior partner William B. Bonn[1] was succeeded by James Speyer who is still with us, rose during the closing decade of the century to so outstanding a position that, immediately after J. P. Morgan & Co. and together with Kuhn, Loeb & Co., they

[1] William Bonn (see note, page 384) was the brother of Leo Bonn.

stood at the head of the investment bankers. They came to London as Speyer Brothers in 1862. Here also they met with complete success, and under the management of Leo Bonn and afterwards of Edgar Speyer, they made their way to the very front rank of merchant bankers. In the twenty years before the war, down to which time Sir Edgar was Chairman of the Underground Electric Railways, they were prominent as the financiers of the great London Traffic undertakings.

The great interests of Edgar Speyer (Baronet in 1906, P.C. in 1909) extended far beyond the City. In his home he fostered the best kind of music; and the deficits on the concerts in Queen's Hall, whose Chairman he was, were regularly met by him.

The positive accusations which were brought against Sir Edgar at the beginning of the Great War may safely be ignored. No reasoning human being could seriously believe them; they were no more than a hallucination due to war psychosis. He at once broke off all connections with the house in New York which was definitely anti-English, and with the Frankfort one which was purely German, and announced the fact publicly. It was impossible for him to do more, but all the same the attacks continued; he and his family were boycotted socially, and together with Sir Ernest Cassel he saw his rank as Privy Councillor disputed. Speyer did the only thing open to him in the circumstances, and through Asquith placed his title at the disposal of King George V who, with his accustomed tact and delicacy of feeling, refused to accept the resignation and asked that Sir Edgar should be told that he continued to have the fullest confidence in him. The attacks, however, continued, and were followed by the peculiar legal proceedings described in the chapter on Sir Ernest Cassel.

The deep hurt which he had sustained induced Speyer to put a sudden end to all his activities in England; he wound up his firm and went to live in America. Angered and embittered, he did not, perhaps, maintain the wise

reserve which those who at all times stood by him would have liked to see, and in the result the man who voluntarily had placed his titles at the disposal of the authorities saw all these endangered in new proceedings "for disaffection and disloyalty" (in 1921) and it was intended to cancel his naturalisation. George V, who wished to "avoid anything so personal and . . . theatrical," again intervened, but in spite of this Sir Edgar Speyer's name was struck off the roll of Privy Councillors.

As far back as the turn of the century the original house in Frankfort had lost much of its former importance, but it still remained so strong that after the closing down of Rothschilds it was able to assume the position of the first banking house of the town. In 1901 they placed the whole of a Frankfort loan in New York, but from that time on they only occasionally showed any initiative of their own, and in the main confined themselves to helping to place in Germany the issues of their associated houses abroad, including, needless to say, those which were not quite so successful.

After the war the partners recognised that it would be impossible in the immediate future to continue their accustomed international transactions; they sought fresh fields in an alliance with German industry, and in this connection met with tragically ill luck. The absorption of the Berlin banking house of C. Schlesinger-Trier & Co., which had shortly before come into very active but highly speculative hands, proved to be a misalliance. The very first big deal entered into in Berlin, the promotion of American subsidiary companies for German artificial silk factories, resulted in considerable losses. Still greater ones were incurred when the attempt to introduce the Paris stores, Galeries Lafayette, into Berlin ended in failure, and very expensive sites bought for the purpose and now useless remained in the hands of the promoting bank. The house had become so weakened that in order to main-

tain its capital strength the associates abroad had to lend a helping hand, and it was generally noticed that the balance sheet was no longer audited by German accountants, but by Price Waterhouse & Co. The following years brought further and not altogether unavoidable losses which for the second time within a short period proved a great drain on the assets. Sir Edgar Speyer died in 1932, Eduard Beit von Speyer[1] who ran the Frankfort house, a year later, and James Speyer was no longer inclined to help single handed.

Under the highly respected name of Lazard Speyer-Ellissen the bank had been in existence since 1836, but if we include the firm from which it proceeded (Joseph Lazarus Speyer-Ellissen) for a hundred and sixteen years, and it has left a considerable mark in the history of Frankfort commerce and of German and international banking. It had been the nursery of the very best financial tradition, and if only for sentimental reasons the American partner would perhaps not have been unwilling to make a second big sacrifice. But as it was a question of an undertaking domiciled in the Germany of after 1933, the choice between renunciation and repeated response was probably not a very hard one.

In spite of the special circumstances the liquidation of Lazard Speyer-Ellissen was really only part and parcel of the utterly hopeless economic and political destiny of Germany which has worked itself out through the War and after it.

[1] Eduard Beit, a member of the Hamburg family from which Alfred Beit came, had married Hanna, a daughter of Gustav Speyer in 1892; in 1910 he received a Prussian title, but in order to show clearly that the honour was being bestowed on the House of Speyer, it was given under the name of Beit von Speyer.

THE BARING CRISIS

THE Argentine was discovered in 1515 by Spain, in 1824 by the issuing houses of the City of London, in which year the first loan[1] was granted, which defaulted in 1830 and continued to do so for fifty years; and for more than a hundred years this South American State has not ceased, turn and turn about, to attract and disappoint European investors. Not a few of them may at times, when promises for the future arrived, but no remittance for the coupon due in the present, have come to the conclusion that it was really not such a good and pious deed which the brave and devout mariner Juan Diaz de Solis achieved in 1515.

In the middle of the eighteen seventies the Argentine[2] passed through a severe crisis, and was saved from complete collapse only by the London financiers, chief among them Barings. In countries with a relatively backward economic development the tide turns quickly; owing to an extraordinary number of immigrants[3] a new era of prosperity began to dawn which, however, from 1886 degenerated into over-speculation and eventually into a boom. As the inflow of money from Europe seemed unceasing[4], the Argentine was bound in the end to come to the conclusion that the

[1] This 6 per cent loan amounting to a million sterling was issued at 85 per cent for the Province of Buenos Ayres; in 1880 it was recognised as a State loan and extinguished in 1904.

[2] The issuing houses for Argentine loans were Baring Brothers & Co., C. de Murietta & Co., Stern Brothers (in conjunction with A. J. Stern & Co. of Paris and Jakob S. H. Stern of Frankfort), J. S. Morgan & Co. (Morgan, Grenfell & Co.), Morton, Rose & Co., all of London, and L. & R. Cahen d'Anvers of Paris.

[3] In 1870 the immigration into the Argentine amounted to 40,000 persons, in 1885 to 109,000, in 1889 to 260,000.

[4] The Argentine received from Europe in 1875 £10,000,000, but in 1888 £36,102,766 in 1889 £29,223,341.

credit of the State was simply inexhaustible, and so the country got swelled head. The price of land rose to a figure which would have been fantastic even in times of greater development; railways were built to cope with a traffic far beyond the bounds of probability for many years to come, and companies and joint-stock banks were founded to satisfy a clientele which as yet had neither been born nor immigrated. The banks were rolling in money and lent freely, and when fraud joined hands with folly, paper money became so discredited that gold rose to a premium of 320 per cent. All the data for a renewed severe crisis were present, and a crash, which would affect debtor and creditor in equal measure, was inevitable. Somewhere and at some time something was bound to happen.

In London responsible persons watched the situation with uneasiness; in order to put some curb on the drain of gold to the Argentine, the Bank rate was on the 26th June 1890, raised from three to four per cent, and on the 31st July to five per cent, and subject to slight fluctuations it remained at this inconvenient figure until the 7th November, but even this did not suffice to protect the bank's gold reserve from further depletion.

Circles which kept a keen eye on happenings on the money market and the stock markets began, at least as early as the second half of October, to feel uncomfortable; something unusual seemed to be in the air. All kinds of rumours floated about, first in Lombard Street, then in the rest of the City; the name of a certain house was mentioned which for a long time had had commitments in the Argentine, and which had of late noticeably increased the amount of its acceptances in circulation. What was really happening nobody knew; those who did know gave nothing away.

The tension lasted till Saturday, the 15th November, when at last the news was made public. Momentous events had taken place within the course of one short week; not London alone had stood face to face with the gravest danger—a national calamity had arisen and been averted.

On Friday, the 7th November, the Bank rate had once again been raised, this time to six per cent. The only reason imaginable for this step, and the only reason which influenced the Governor of the Bank, William Lidderdale, on this as well as on previous occasions when he had raised the rate, was to protect his gold reserve against remittances to South America. There can be no doubt that he was also actuated by the desire to exercise quite special caution, for the rumours circulating concerning the great house had not been silenced, and in no case would Lidderdale have been in the least surprised to learn that the people in question were seriously embarrassed. Nevertheless it came as a shock to him to be told on the next day (8th November) that with liabilities amounting to twenty-one million sterling Baring Brothers were at the end of their resources, and that unless help were given, they would have to suspend payment.

Exceptional measures had to be taken at once in order to be ready to meet a catastrophe on such a scale, and if possible to avert it at the last moment. For immediately behind the first enormous danger stood the far greater risk that if Barings should fall, it might mean the end of all credit, and the other banks would crash one after the other. At the same time there seemed no reason to anticipate that the situation of Barings was hopeless and irremediable and several days were yet to elapse before a report on the affairs of the deeply involved bankers was available.

Lidderdale used the time to prepare his own house, the Bank of England, for all emergencies, and by the 12th November he had secured four and a half millions in gold which proved an immense help; a million and a half had been obtained from Russia against the sale of Exchequer bonds, and the Bank of France had lent three millions at the instigation of Rothschilds.

Meanwhile the outside world remained ignorant of what was on foot.

The report was received on the 14th November; from this it appeared that against liabilities amounting to £21

millions (£16 millions being on acceptances) there were assets to the extent of £24¾ millions which, however, included £7¾ millions of South American stock (£5¾ millions Argentine and £2 millions Uruguay loans), a sum which, in view of the crisis emanating from the Argentine, was at the moment absolutely unrealisable. Nevertheless it could, humanly speaking, be expected that matters would develop smoothly, if only Barings were given sufficient time for the necessary liquidation.

In the absence of Goschen, the Chancellor of the Exchequer, W. H. Smith, the First Lord of the Treasury, had taken part in the discussions, and immediately on receipt of the report its contents were communicated to him by Lidderdale. The Government from the start declined to intervene, and both the Government and Lidderdale were convinced that it was out of the question for the Bank of England alone to take the responsibility for finding the necessary millions.

Smith it was—and it is not without interest to note that a great Tory business man was officially called in to the rescue of the largest Whig capitalists—who in the course of the final conversation propounded the idea, at which Goschen also had hinted, that private guarantees alone could save Barings and the situation.

"I fear, sir, you do not appreciate the gravity of the position," interposed Lidderdale, not yet convinced that the proposal was feasible.

"You are mistaken," retorted Smith, "and to prove this I will myself send you a cheque for £100,000 to-morrow morning[1] if you tell me to do so."

In itself the measure put in train at that moment was nothing new; on many occasions, both before and after, in the City and elsewhere, assistance has been granted to neighbours in distress, and neither in this nor in the other

[1] W. H. Smith personally had no connection whatever with Barings or the interests involved. "My motive in offering a guarantee of £100,000 was entirely a public one," he wrote to Lidderdale on the 21st Nov. 1890, "I thought it would have been a national misfortune if Barings had gone down and I was willing to incur a private risk to avert that disaster."

cases had brotherly love been the sole factor which moved the guarantors to incur risks. The only difference between the case of Barings and all others was the extent of the danger averted and the extraordinary speed with which the necessary steps were taken.

In the meantime it was five o'clock in the afternoon of that same busy Friday, 14th November, when the Baring Guarantee Fund was started with £1,000,000 supplied by the Bank of England itself. Half an hour later it had risen to £3,250,000, by eleven o'clock in the forenoon of Saturday (15th November) it had doubled, and at noon, when Lidderdale announced that Baring Brothers were in difficulties, he was able at the same time to state that their liabilities would be duly met.[1]

This was the first news of events to reach the public. A crisis which might have become the greatest in history had been checked even before its real cause became known, and the panic[2] which would necessarily have followed and would have attained unparalleled dimensions never occurred at all. Before the City was fully aware of what was threatening it, everything had been settled.

It was the default of the Argentine which caused the calamity to the bankers. Edward Charles Baring,[3] a partner

[1] The guarantee fund eventually reached the imposing figure of £17,500,000. When the actual danger was over and thanks to the steady increase in the fund the commitment of each individual participant correspondingly decreased, many houses who had not originally been called on came to the conclusion that their accession to the ranks of guarantors might create a good impression and that their noble gesture might possibly be construed as a sign that they also dwelt in the coveted fields of haute finance. Their hopes, however, were destined to be rudely dashed to the ground, for the names of the guarantors and their share in the fund never became officially known. The regular reports of the joint-stock banks and the joint-stock discount companies of course showed their participation; nine members of this group had together contributed £3,450,000.

[2] The immediate juxtaposition of crisis and panic perhaps requires a short definition of both. A crisis arises when the business world finds out that it has made a mistake and that it will have to pay for that mistake; it is a definite state of things which must be followed *at once* by collapse or recovery.—A panic presupposes a past crisis, but can also mean merely a sudden fright which is not necessarily caused by visible events.—A crisis entails the loss of money, a panic discloses losses which have been made before it broke out.

[3] The fifth son of Henry Baring, grandson of Sir Francis Baring, first Baronet, the founder of the banking house; see chapter "The Rise of the Barings."

Maurice Baring, the former diplomat and well known author, is the son of this (first) Lord Revelstoke.

since 1850 and raised to the Peerage (at the same time as Nathaniel Rothschild) as Lord Revelstoke in 1885, a highly respected and widely trusted business man, a director of the Bank of England, had been unable to resist the temptation of adding riches to riches, and had entered into far too many heavy commitments which, when more difficult times came, could not be met with the hoped-for rapidity. During the last seven years Baring Brothers had placed on the market issues amounting to more than £100 millions, of which £19 millions had been Argentine Stock.[1] As the purpose of an issuing house is to pass on to the investing public the loans it negotiates, it may be stated without fear of contradiction that Barings would have continued solvent if they had been successful in this. In consequence, however, of the South American crisis, they had been left with a considerable block of the Argentine loans on their hands,[2] and their assets had to a great extent become frozen; their first class mercantile business remained thoroughly sound.

In the inner councils of the firm itself the methods of conducting affairs had met with a certain amount of opposition, but Lord Revelstoke, always inclined to be autocratic, had refused to listen to warning voices, and for this reason Thomas Charles Baring,[3] one of the partners, had resigned during the previous year. Now, in the hour of need, he freely put the whole of his fortune at the firm's

[1] Baring Brothers had by themselves, or together with others, issued since 1884 the following Argentine loans:—

1884	£1,714,200	5 per cent at 84½.
1886	4,000,000	5 per cent at 80.
1887	4,290,100	5 per cent at 85½.
1888	3,933,580	4½ per cent at 7.
1889	5,263,560	4½ per cent at 90.
	£19,201,440	

[2] From the entry in the Queen's Diary on 30th November that Lord Revelstoke "had rashly and credulously put all he had into these Argentine mines or works, and had been cheated by the Argentine agents who had come to him," we may conclude that W. H. Smith ("most pleasant, kind and sympathetic, a man to whom one could speak very openly") had preferred, when reporting events to Victoria, to put things in a simpler, more easily understood, way so as to avoid lengthy and involved technical explanations.

[3] Thomas Charles Baring was a son of the Bishop of Bristol, Charles Baring, and a grandson of Sir Thomas, the second Baronet (who himself was the father of Francis Thornhill Baring, the first Lord Northbrook).

disposal, and upon its reconstruction into a limited company, for which the Baring family and their friends found a capital of a million sterling and which carried on the old business, he joined the board of Directors.

Needless to say, it had been found impossible to wind up everything within the period of three years for which the guarantors had undertaken their liability, but by the end of that time the liquidation of the existing commitments had proceeded so far as to leave no doubt that it would be completed within a further twelve months, and the guarantors unanimously declared their willingness to carry on for that period; it had been necessary for them to agree to find no more than a quarter of the sum originally subscribed. In 1894 the guarantors were relieved of any further liability —Baring Brothers were again in a position themselves to meet all their engagements.

At no time was any claim whatever made on the guarantors, not for a moment had Barings ceased promptly to meet all their old obligations across their counters, and the great name of the bankers—and this is perhaps the most impressive part of those events which from the outset were confined within the bounds of a mere episode, although a gigantic one—did not suffer the slightest stain.

That during those weeks of stress an able, energetic and steadfast man like William Lidderdale[1] should have stood at the head of affairs at the Bank of England was a great stroke of luck. He disposed of the prodigious danger with consummate skill, quickly, and above all in a novel manner, for from the first moment he refused to avail himself of the "classic remedy," the suspension of Peel's Act; the Bank rate never rose above six per cent, remained at that level for no more than three weeks (till the 4th December), and

[1] William Lidderdale, born in Russia, belongs to the large class of Englishmen whose fame has been pushed into the background by men still greater than themselves.—In 1864 he became a partner in Rathbone Bros. & Co. of Liverpool, whose New York representative he had been from 1857 to 1863, and whose London office he established. He became Governor of the Bank of England in 1889 and—in those days an almost unprecedented event—in appreciation of his great services after the Baring Crisis, he was elected to the office for a second year.

by the 29th January had already fallen back to three per cent. Lidderdale's greatest efforts were directed to seeing that business should continue as usual, that the joint-stock banks should not stop discounting and should in no event call in the loans granted to the bill brokers. One dissenting bank manager who announced his intention of carrying out in practice the view, expressed in many quarters, that it would be more to the purpose to let events take their course, and of calling in large amounts of outstanding loans, was very plainly told by Lidderdale that his only choice lay between falling in with the others and seeing his account at the Bank of England immediately closed and the fact advertised in the papers. Thus a period of stress passed not only without actual panic, but also without important failures.[1]

Even when everything was happily over, there was as yet no occasion for great rejoicings, but the more reason for gratitude, and on the 30th December a deputation from the Stock Exchange waited on the Bank Governor "to express their high appreciation of the admirable and effective manner in which the recent monetary crisis was met." "From their position necessarily well acquainted with the unexampled character of this crisis," as was stated in the Address, which once more reviewed the past events, they were "fully able to estimate the magnitude of the disaster which at one time threatened to disorganise, if not to overwhelm, the vast financial and commercial interests of this and other countries."

Throgmorton Street was followed on the 6th March, 1891, by the Mansion House; everybody of note and position in the City was present at the banquet; Goschen made an eloquent speech, W. H. Smith sent a telegram, and Lidderdale was presented with the Freedom of the City of London.[2]

[1] C. de Murietta & Co., who also had large commitments in the Argentine, were severely hit at the time, but did not crash till 1892.

[2] There were not wanting, both amongst economists and in the City itself, those who raised sharp criticisms. Nothing, however, can more strongly prove that the

The after effects, on the other hand, of the events of 1890, which might with equal right have been termed the Argentine Crisis, but which became known in history generally, and not merely in financial history, as the Baring Crisis, were deep and lasting; they were felt even more strongly on the Continent and in America than in England, which, endowed with a sound and robust constitution, can always recover quickly.

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road which was in fact followed was the right one, than the fact that the guarantors, who had come in against their own conviction, merely from a sense of loyalty and unqualified solidarity, subsequently said that they would not hesitate for an instant if a similar call should ever reach them again.

COMPETITION—PUBLICITY

THE conviction expressed more than once in the course of this book, that every misfortune gives rise to some eventual good is applicable to this (Baring) Crisis also. The important private banks drew from the tragic November days of 1890 the moral that they ought appreciably to reduce the amount of their acceptances in circulation and—of considerably greater importance still to the outside public—that they should publish accounts. In this new departure also, which started long before the private banks turned themselves into limited companies, it was Glyn, Mills & Co. who led the way.

Even the most conservative of bankers had been forced to the conclusion that, apart from any other kind of competition, they were bound to lose business owing to the regular publication of the more and more imposing figures of the joint-stock banks, and that in view of the very natural inclination of the public to entrust its money to those of whose extensive deposits they knew, family standing and old name no longer sufficed. Even so, when at last they came to the difficult decision to publish figures which hitherto had been jealously guarded, they were still at a disadvantage. Supposing the capital of one of the private banks had been equal in amount to the rapidly growing capital of the joint-stock banks, it would have been impossible to publish the figures in the same manner. The reserves accumulated by a joint-stock company will always appear more or less visibly in its balance sheet, but those of a partnership will not; the responsible partner's town house and country estate, his picture gallery and rare books, also constitute

a reserve of his firm, on occasion even a very important part of it, which, if need should arise, will be thrown into the scales against its liabilities. It is out of the question, however, in a business report to include that private property as a capital reserve which it is in fact: it can only be so included in a balance sheet drawn up for purposes of liquidation; in the normal course of things it remains hidden. "I remember being told by Lord Overstone in his own counting house," said Thomson Hankey[1] in a speech delivered at the Institute of Bankers in 1879, "that all his capital was his desk, ink, pens and books. 'That is all my capital,' said Lord Overstone, 'the rest belongs to me; it has nothing to do with my banking business.'"

So far-reaching a conception of the division between business capital and private fortune was, however, no longer possible even in 1890, and it definitely could not be expressed in a balance sheet which was to be published.

In their early days the joint-stock banks also looked upon the legal obligation to publish figures as a burden, but publication turned out to be an excellent advertisement, and more frequently than was prescribed by law the figures, which were not to be sneezed at, were printed in the papers. The Westminster Bank was the first to break the age-old ban and to prove that it is easily possible to remain dignified whilst at the same time explaining and offering the services which one is prepared to render.

[1] Thomson Hankey, a great West India merchant, was Governor of the Bank in 1851.

THE CITY OF LONDON

"SEND a philosopher to London; for heaven's sake not a poet. Send a philosopher and put him at one of the corners of Cheapside; he will learn more there than from all the books at the last Leipzig Fair; and as the crowds of human beings rush past him, so a flood of fresh thoughts will rise up before him, the eternal spirit which floats above all will breathe on him, the most secret mysteries will suddenly be revealed, he will hear audibly and see visibly the pulse of the world—for as London is the right hand of the world, the active, powerful right hand, so the street which leads from the Royal Exchange to Downing Street must be looked upon as the main artery of the world."

It was not a philosopher who wrote those thoughtful lines; a German poet, Heinrich Heine,[1] uttered them in amazement and admiration as he stood on the steps of the Royal Exchange in the midst of the petrified forest of houses in the centre of London.

Threads running from all parts of the world meet here in the narrowest space, and it is impossible not to succumb to the mighty impression created by a mere glance at the plates on the houses which bear names that are known in the farthest corners of the earth. "London—a nation, not a city"; it was another poet, Disraeli, who coined this phrase.

Just the same as "nobody planned the confounded Constitution; it came about," an almost perfect working machine evolved of itself, constructed prudently and soundly on useful and practical lines to meet necessities.

[1] Heinrich Heine lived during his stay in London in 1827 at 32 Villiers Street, near Charing Cross; a tablet marks the house where the poet resided.

had gradually arisen—the money and banking system in its four great parts: the deposit banks, the merchant and foreign banks, the discount houses and the bill-brokers, and towering above everything and above them all, the Bank of England, that unique enterprise, nominally a private trading company like any other, but in fact a national institution with enormous privileges, entrusted with the tasks of banking for the Government, managing the National Debt and issuing notes. Each separate department was allowed ample time for development, it was watched over to see whether and how it stood the test, and then, again with the greatest caution, on the basis of the experience gained, alterations were introduced. Everything, even theory itself and the great theorists—David Ricardo, Samuel Jones Loyd, James William Gilbart, Walter Bagehot and George J. Goschen—were based on practice, and so Lombard Street, which received money from one part of the world and lent it to the other, became, and perhaps in no other way could have become, a world conception.

The Government neither assisted nor hindered the development; no interference by the authorities hampered the working of the unfettered forces; a hint was given, understood and was enough to induce the strongest of money powers to do or omit to do a particular thing. A courteous suggestion by the Bank of England that for the moment it would not care to see fresh foreign loans introduced on the market, had a greater effect than would in any other country have attended a prohibition by the legislature, and a quite vague intimation by the Governor to a Bank Manager that the acceptances of his bank were without the slightest doubt just as reliable as they had ever been, but that of late there had perhaps been rather too many of them about, sufficed to compel the man to whom the remark was made to see that the credits granted by his establishment were curtailed.

All English money was gold or a claim to gold; other countries also had a gold currency, but there was always

a flaw, and when it actually came to the point most of them did not pay out gold.[1] England's notes were practically gold certificates, and were unfailingly exchanged for the precious metal. Accordingly no other currency came into consideration so far as international settlements were concerned, and the gold acceptance made out in sterling became the payment medium for the world.

An account in London was a necessity for the big merchants overseas and for the banks of the whole globe, and was the pride of the wealthy private citizen on the Continent. It was a matter of common knowledge that the German Government kept a very considerable account (with the London Joint-Stock Bank) and that the Hapsburgs maintained important deposits here. This country had the most stable of all Governments, whilst the thrones of all other countries were exposed to constant changes; it had not, since 1688, been exposed to serious revolutionary movements, and since the battles which William III soon after his accession (in 1689) waged against Scotland had seen no wars within its borders[2]; it paid out of taxation the cost of the wars which it fought in other countries and strange continents and not out of borrowing[3] and never wavered when a coupon fell due.—Thus the British Government loans, the Consols, became the safest of *all* investments.

Money was cheap in London; for the handling of this ready cash, which was in search of short term investments, a unique organisation was available—the London Bill Market.

[1] The Bank of France had the right to pay in silver; in Germany, which also did not have a quite clean, but rather a "hinkende Waehrung" (lame currency), the Reichsbank was able to place obstacles in the way of the exchange of paper notes for gold.

[2] Only during the Commonwealth and the Protectorate (1649–1660 has the monarchy, which was introduced in times immemorial, been interrupted for eleven years, and since 1688, the flight of James II, no serious revolutionary movement has disturbed the country. The last hostile invasion of England took place in 1066, but the historical development has brought it about that "hostile invasion" is no longer the correct description of the Conqueror's armed landing.

[3] Even the wars against France and Napoleon, which sent the public debt soaring from £247,874,000 in 1793 to £861,039,000 in 1815 were financed only to the extent of 20.30 per cent out of borrowing, and to the extent of 79.70 per cent out of taxation.

The import of gold was never stimulated nor its export hindered; its ebb and flow was easily regulated by the able manipulation of the safety valve of the discount rate by the Bank of England whose peculiar authority has been compared with that "which the mid-Victorian pater familias used to wield." The Government is not represented[1] on the Court of the Bank and does not, and cannot, exercise the slightest influence over it nor over the Stock Exchange, which has not been founded at any particular date; unimpeded it evolved from a coffee-house,[2] and has become a self-governing Club, most exclusive as regards the admission of members, and not, as in other countries, a disciplined Government organ.

It is this complete liberty, in great as well as in small matters, which created the unequalled international confidence. As the Clearing House in Post Office Court is the place for settlement for the London banks, so the City itself became the clearing house for world finance, and the reserves of Europe were entrusted to the Bank of England.

Serious upheavals, crises, have not indeed been wanting, but England, and England alone, may boast that intelligent and prudent management has preserved the banks, and hence the country, from overtasking its powers, from mismanaging its affairs. No real panic has visited the City since 1866, the date of the Overend and Gurney collapse.

Like everything that has been created by the human mind, the English banking system has its weaknesses and the drawbacks of its advantages; it is only in this country, however, that it has been sharply criticised and damned, the rest of the world looks on it with envy. But as a rich man can well afford to speak quite openly of his debts, so it is those who stand at the head of London's financial

[1] The Central Banks in other countries are either State-owned or stand in some way or other under Government supervision.

[2] Almost all the London Exchanges were evolved, like the Clubs, from coffee or chocolate houses. The Baltic Coffee House in Threadneedle Street grew into the Baltic Mercantile & Shipping Exchange, Edward Lloyd's Coffee House in Tower Street (first mentioned in 1688) gradually became the centre of shipbroking and marine insurance business and gave its name to Lloyd's, and both here and on the Stock Exchange the doorkeepers are to this day called waiters.

organisation who have with a light heart made public and discussed its less bright and darker spots.

Similarly there can be no doubt that, although to a far smaller extent than other financial centres, the City of London also, its money powers, the currency and everything pertaining thereto, have suffered severely during the great war and afterwards (and the war psychosis at times affected even its conscience). The greatest blow from which it had to recover was the collapse of England's pride, of the gold standard which really formed the basis of everything; thanks to its innate soundness and its never-failing adaptability to new circumstances, Lombard Street got over it in an amazingly short space of time, and it was shewn that the position of London is based on something deeper. "The stability of our currency has been dependent not on any material standard, but on the City's tradition of honour, of moderation and of public spirit, which is always available for the guidance of the Government of the day, whatever its political complexion may be, in managing the financial affairs of the nation, and at a time when mistrust is rife in the world, and economic and financial systems are in a state of flux, there has been this centre of confidence and of stability to afford a rallying point."[1]

It is on this fortunate soil that the great money powers arose and developed; "the name of 'London Banker' had especially a charmed value," and an enviable position in the mercantile and social world was occupied by the man who was permitted to include himself in this category.

Together with the goodwill of the firm, an extraordinary amount of culture and scholarship passed from father to son. The management of a well-established business required attention and foresight, but did not take up very much time; "when it was hard, it was wrong," and there was ample opportunity for a man to interest himself in subjects outside his profession. Just as Westminster bred

[1] Stanley (Earl) Baldwin, 9th November, 1936, at the Lord Mayor's Banquet.

her scholar politicians, so Lombard Street trained her scholar bankers.

With the most marvellous ease this type accommodated, and to a certain extent still accommodates, itself to every kind of activity, to every office. Ashburton, of Barings, concluded State treaties; Samuel Loyd made and prevented laws; Samuel Rogers, of Rogers, Olding & Co.,[1] by birth a banker, by talent a wit and by profession a poet, narrowly escaped becoming Laureate. Nor must W. H. Smith, of the Strand, the great distributor of the printed word, be forgotten when the talk turns on all-round men in the City; with the same efficiency he fulfilled the offices of Secretary of State for War, First Lord of the Admiralty and First Lord of the Treasury, and in addition to all these he was offered when out of office the Chairmanship of the London & North Western Railway. Goschen, of Fruehling & Goschen, as First Lord of the Admiralty managed the British Navy; Walter Leaf, of the Westminster, was an authority on ancient Greece, and John Lubbock, of Roberts, Lubbock & Co., entered the political arena in the first instance because he thought that "I might be useful in scientific questions," and it is thoroughly characteristic of his mental outlook that he valued his twenty years' experience as a banker so lightly that he considered that perhaps it "might, in the second place, be of some use."

[1] Founded about 1766 as Welch & Olding, known in 1838 as Rogers, Olding & Co.; from 1855 on, when Samuel Rogers died, the name of Rogers was dropped from the firm. In 1866 the business was transferred to the short-lived English Stock Bank which stopped payment in the very year of its establishment.

SIR JOHN LUBBOCK, LORD AVEBURY

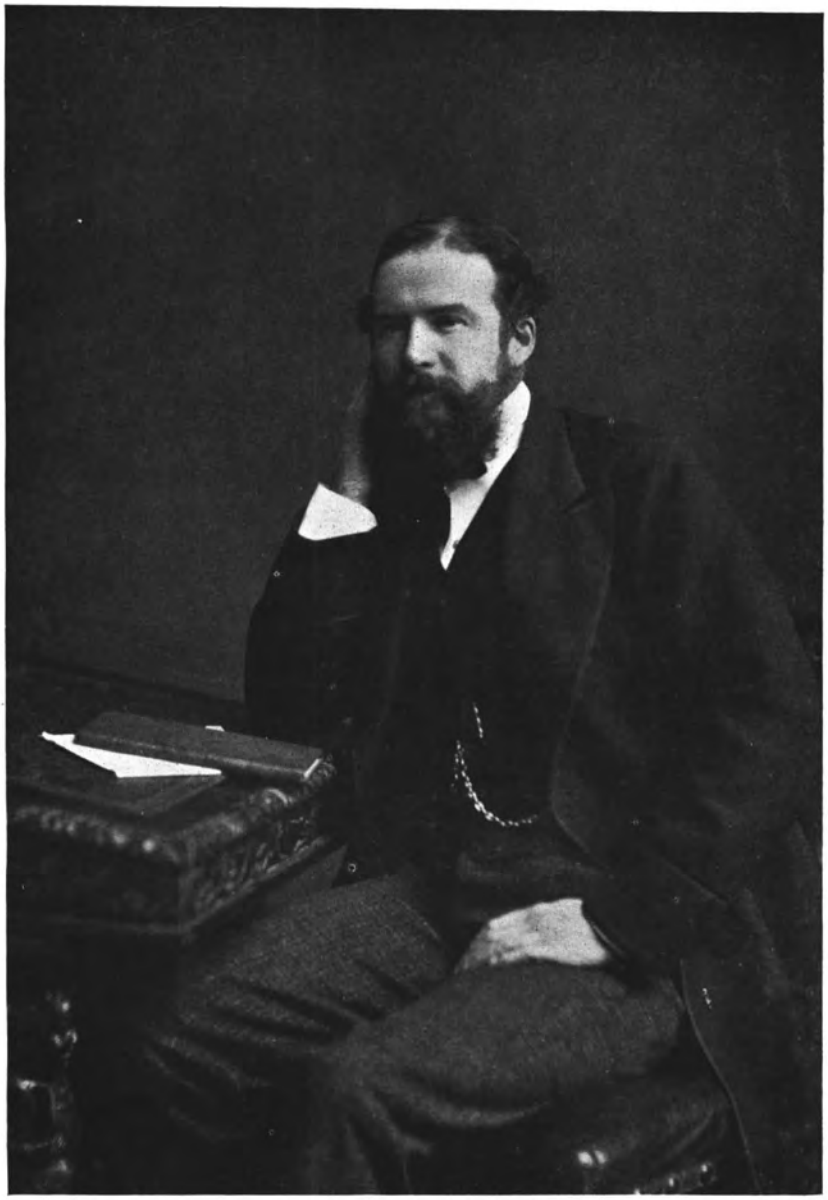
SIR WILLIAM LUBBOCK, third Baronet, the father of John "never liked business but he attended to it with perfect regularity," and he was able to lay the flattering unction to his soul "that none of the correspondents of the House are warranted in addressing me any reproach." Whilst other men devoted much of their time to society and sport, the old Baronet "chose to investigate questions in astronomy, or in any other science," and a considerable number of publications on vapours, the moon, astronomical refractions, and the "Laws of Probabilities" (a particularly thorny subject for a banker) and occasionally even on questions of currency, form the result of those studies.

John, the son, went to Eton, and there, amongst many other more or less useful things, he learnt to dress for dinner in the shortest possible time, and in this he even beat Gladstone, who required three minutes for the operation, "but five if I potter"; Lubbock set up the new record of two and a half minutes. He joined the firm, founded in 1772 under the name of Lemon, Buller, Furley, Lubbock & Co., whilst still very young—he was only fifteen—but in spite of this early training he developed neither into the type of the private banker of olden days who himself managed his well organized undertaking, nor into the modern banker who is completely taken up with his profession and the many things which have recently come to be connected with it.

In the daily time-table of this great economist of time, with an amazing capacity for work, who started at six in the morning and continued till about midnight, his actual

profession occupied the smallest part of his time, the greater being devoted to studies in the extensive realm of natural history, and one evening after a full day's work at the bank he submitted to his father a long and complicated calculation of the distance between the earth and the sun. It is therefore not surprising that Lubbock—contrary to the more usual practice—should have "found the City very lonely," and still less so that he did not seek his intimates amongst his colleagues in Lombard Street. The versatile Mountstuart Grant Duff and his neighbours, Charles Darwin and Richard Owen, the naturalist, were ever welcome at High Elms—"inside a museum of manufactured curiosities, in the grounds a collection of rarities of nature." There, and from 1901 on at Kingsgate Castle, Lubbock entertained on a noble scale, and few foreign scientists on a visit to this country omitted to call on their banker confrère who was fortunately able, thanks to ample means and efficient partners, to retire from the active management of his firm in 1882 at the early age of forty-eight.

The wide compass of his interests comprised the whole field of natural science; he specialized in insects (ants and bees) and a wasp which he found in 1872 in the Vallée de Lys, was immortalized by Lord Lytton in the novel *Kenelm Chillingly*. All questions of education found in Sir John an eager supporter, and in his "Hundred Best Books," books which according to him every one might read with advantage, he (in 1886) "indexed European literature for the guidance of British readers." Even on its first appearance men of more than average education probably found the collection somewhat arbitrary and out of date. It was much ridiculed, and Ruskin, for instance, violently condemned "the rubbish and poison" recommended in it; but this criticism, and the charge that Lubbock's achievement consisted solely of popular interpretation of science and "philosophic midwifery" seem somewhat exaggerated. Amongst the great number of publications there are some quite excellent things, and *The Beauties of Nature* have



[*Photo : The Rischgitz Art Studios*

SIR JOHN LUBBOCK, LORD AVEBURY

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done no less to open people's eyes to the splendour of creation that his Wild Birds Protection Act of 1880 did to preserve them; when, however, the whole mass of printed material is examined, it is difficult to get rid of the impression that the banker-philosopher approached the great problems with a kind of "scientific curiosity" whilst at the same time he was merely idly busy. It is necessary, in order to get a proper perspective of this versatile man, to lay particular stress on the fact that he belonged to forty-two learned societies, being chairman of many of them, that he was a Trustee of the British Museum, and that for three years (1890–1892) he was the head of the London County Council. As an antiquary he made researches—at Stonehenge, on Salisbury Plain, and at Avebury, in Northern Wiltshire—into the oldest stone monuments of the civilization of these islands, and when in 1900 he was raised to the Peerage, he took his title from Avebury.

Although the main interests of his life must be sought elsewhere, it would be a mistake to assume that Sir John Lubbock was not a good banker; quite the opposite was the case, for almost by instinct he rendered appreciable services in raising the standing of the profession as a whole. As Jones Loyd successfully insisted that the Bank of England should publish its balance sheet, so John Lubbock induced the Clearing House to give an account of its turnover, and from that time on this report, which is accessible to and in its fluctuations is closely studied by everybody, constitutes the infallible barometer of the commercial situation. It is in accordance with a scheme worked out by him that country clearing houses were instituted in 1858, and he was one of the founders in 1868 of the Council of Foreign Bondholders, an organization to protect the interests of British investors in foreign securities which had become only too necessary by reason of many defaults, and which is dealt with more at length in another chapter. When the Institute of Bankers was formed in 1879 with his collaboration, his colleagues elected Sir John as their first President.

His bank, which in 1860 had amalgamated with Robarts Curtis & Co. (founded in 1792) and was henceforth known as Robarts, Lubbock & Co., was one of the most important in Lombard Street, and it "was a dramatic surprise from a quarter where the traditions were regarded as ultra-conservative" when in 1914, a year after Lubbock's death, it was absorbed by Coutts & Co.

Lubbock's claim to be included among the great men of his country is due neither to his activities as a banker nor to his championship of ants and wasps, but to his work as a legislator. Of the thirty Bills which he introduced and saw passed into Law between 1871 and 1908, his first parliamentary success remained his greatest, for in the words of the *News of the World*, "Sir John Lubbock was scientific enough to invent Bank Holidays." We look upon them to-day as a commonplace, but in order to appreciate their importance at the time of their introduction in 1871, when the sympathy of society for the working classes was not exactly strongly developed, we must ever remember that in those days young people often worked eighty and even a hundred hours a week. In the course of more than sixty years these days of rest and amusement have become a national institution in such a measure that the name of the man to whom we owe them is hardly ever mentioned in this connection. If they had received the name of St. Lubbock's Day, as the *Daily Telegraph* suggested, their creator, "the fellow what gave us Bank 'Oliday," would have been assured of the lasting gratitude of millions of his fellow countrymen, but for technical reasons[1] they were called Bank Holidays. This Bill may be said to have passed into law out of hand; Lubbock's attempts to secure shorter hours for city clerks and those employed in shops required a thirty years' fight, and it was not until 1904

[1] "On other holidays, Bills of Exchange are payable the previous day. On our holidays on the following day. Now if we had used the expression 'General' or 'National,' the provision would have been doubtful, and we therefore chose the special distinguishing term 'Bank Holiday.'" Explanation by Lubbock of the name given to the Bill.

that the early closing (Shop Hours) Act and until 1908 that the Sunday Closing (Shops) Act found a place on the Statute Book.

The many books dealing with Sir John Lubbock and his talents are mainly devoted to an appreciation of the scientist and the legislator, and the banker has been somewhat neglected. Most appropriate and delightful are the lines which *Punch* wrote in 1881, on the occasion of the fiftieth anniversary of the British Association, whose President Lubbock then was:—

"How doth the Banking Busy Bee
Improve the shining hours?
By studying on Bank Holidays
Strange insects and wild flowers."

GEORGE JOACHIM (VISCOUNT) GOSCHEN

No one who either before or after him occupied at one time an office stool, at another a ministerial seat, has done more to knit firmly the many and intimate threads which run between the City and Westminster than George Joachim Goschen, yet it would be a mistake to include in the big money powers either him or Fruehling & Goschen whose chief importance, apart from the share they took in the financing of Egypt, lay in the fact that the future First Lord of the Admiralty, Chancellor of the Exchequer and converter of the National Debt was, for a bare eight years, a partner of this Bank. On the other hand it would be an under-estimate of the man to say (as is so often done) that Goschen was merely one of those who, like Samuel Laing, Henry Drummond Wolff and Edgar Vincent (Lord D'Abernon) stood turn and turn about at the head of Government Departments and of financial undertakings; if, however, he must at all cost be labelled as belonging to that category, then it must be admitted that he was the most perfect specimen of this species, and towered head and shoulders above all others.

His grandfather, whose name he bore, was Goethe's publisher; his father, William Henry Goeschen, had come from Leipzig to London in 1814, and was on the point of joining the Army when by a stroke of good fortune a wealthy City man and fellow countryman, Mr.Fruehling[1] from Bremen, took him into partnership in the year of Waterloo. "Thus the youngster is an established merchant

[1] It has been impossible to obtain any further information about the senior member of this firm who made the "arrival" of the Goschens possible; courteous inquiries in quarters which were in a position to fill this gap have remained unanswered.

in his twentieth year, and launched on a very fortunate career. But then this Heinrich . . . is quite an exceptional mercantile genius. . . ." his enraptured father wrote (in German), and as in spite of all his inherited artistic and scientific leanings William Henry was really a very able business man, Fruehling & Goeschen prospered from the start.

This firm of merchant bankers George J. Goschen joined immediately after he came down from Oxford in 1854, and was sent to New Granada (now part of Colombia) to take charge of the bank's affairs there. Back in London the "happy youth," of whom Bonamy Price, who himself also radically changed his profession and from a mathematical teacher at Rugby turned into a banking and currency expert, said, "he starts with the commercial and political ball at his feet," became a partner in 1857; a year later, at the age of seven-and-twenty, he was a director of the Bank of England and in 1861 he published his fundamental *Theory of the Foreign Exchanges*. He entered Parliament in 1863 as Member for that famous constituency, the City of London, and so great was the mark which the young man made in the House of Commons that in 1865 he was sworn of the Privy Council and became Chancellor of the Duchy of Lancaster in the Russell-Gladstone Cabinet; the promotion was striking and was much talked about. "Now you have finished your work for Fruehling & Goeschen. Now you work for the nation, and from my heart and soul I wish that the nation will derive as much benefit from your working on its behalf and will be as ready to acknowledge gratefully that benefit, as Fruehling & Goeschen acknowledge your merit," his father wrote to him with great emotion when he left the paternal firm and the banking profession.

The following year saw the death of the co-founder of the firm[1] which continued to enjoy a great reputation and,

[1] William Henry Goeschen's successor in the Bank, which now called itself Fruehling & Goschen, a spelling which the younger generation had adopted some time previously, was his son Charles Hermann, who in due course became a director

even when other houses came to be stronger and more important, was able to maintain its position in the City. Fruehling & Goschen did a considerable business with North and South America,[1] launched various foreign loans, and in 1862, whilst still under the old management, they invited subscriptions for the first external loan granted to Egypt,[2] which opened a sad chapter in the extensive history of the abuse of monied power upon which some further light will be thrown in the course of this book.

Goschen, the parliamentarian, was not a felicitous speaker; his voice was harsh and guttural, but what he said was sound and in form impeccable. Although he did not himself coin the brilliant phrase of "splendid isolation," yet it was he who is responsible for its admission in that form[3] into the English Dictionary of Quotations. A master in the art of assimilating in the shortest possible time the most complicated subjects, he introduced his Navy Budget in 1871, after having been in office as First Lord of the Admiralty for a bare three weeks, as if he had been bred to the Service. But *Punch* was on the spot just as quickly —Goschen had been one of his favourite characters since 1865. The song "If ever I cease to love" was popular at the time, and inspired the staff poet to the lines of which

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of the Bank of England and Chairman of Lloyds. After him the management of the firm passed to William Henry, the second son of the statesman. In 1920 Fruehling & Goschen amalgamated with Cunliffe Brothers, and since then the name has been Goschen & Cunliffe.

The sixteen year younger brother of the statesman, Sir William Edward, went into the Diplomatic Service and played a historic part as Ambassador in Berlin when the Great War broke out.

[1] Amongst the numerous foreign interests of Fruehling & Goschen was the London & San Francisco Bank in which Bischoffsheim & Goldschmidt, Stern Brothers, Huth, and the London office of Morgan (Morgan, Grenfell & Co.) also took part, and which was very successful; in 1905 it was merged in the Bank of California.

[2] £2,195,200 7 per cent loan was issued in March 1862 at 82½, and £1,097,600 in August at 84½; the loan defaulted in 1876.

[3] George Eulas Foster on the 16th January, 1896, and shortly afterwards, on the 5th February 1896, Sir Wilfrid Laurier spoke in the Canadian House of Commons of "splendid isolated" England. Acknowledging its origin, Goschen adopted the phrase, and in a speech at Lewes on the 26th February, 1896, he said, "We have stood alone in that which is called isolation—our splendid isolation, as one of our Colonial friends was good enough to call it."

it can be said without exaggeration that they were laughed at and became famous all the world over:—

"If ever I cease to love
May Mr. Goschen
Have a notion
Of the motion
Of the ocean."

Thirty years later, in 1900, when the worthy statesman retired from public service and as Viscount Goschen entered the House of Lords, it was *Punch* who spoke the most cordial parting words. "Good-bye, and good luck to you, sir! You have done so much for the Service that we are sorry to lose you."

Twice Goschen was First Lord of the Amiralty; from 1871 to 1874 in the Liberal Cabinet, during which period he had to labour hard to repair the honest bungling of his predecessor, Hugh Childers, and again in entirely different political surroundings in a conservative Cabinet from 1895 to 1900. His keen perception enabled him betimes to acquire a complete notion of the motion of other nations on the ocean, and he saw the necessity for maintaining a Navy which would cause not two but three powers to think it over not once but twice before they made up their minds to attack England.

After an absence of thirteen years from all Cabinet activities Goschen had returned to high ministerial office in 1887, but no longer under Gladstone, whose Home Rule policy did not accord with his conscience. He felt the separation from his old chief deeply, and at first would have retired rather than join the Tories. Lord Hartington (Duke of Devonshire), his close friend, who had also left the Gladstonian fold (and who, being too indolent himself, was always trying to urge his colleague on to "doughty deeds") did all he could to induce Goschen to join the Liberal Unionists which Party he had just called into existence together with Chamberlain, and which had allied

itself with the Conservatives under Salisbury. The Queen herself took a hand in the matter; on the 24th February, 1886, whilst he was still hesitating, she wrote to him, "there are times when all true patriots should rally round the Throne," and it would hardly have been possible for him to resist such an appeal (or was it an extreme pressure?).

Towards the end of the year Goschen's decision was made. In December Lord Randolph Churchill resigned, firmly convinced that his resignation would not and could not be accepted, as there was no one who could take his place in the Salisbury Cabinet as Chancellor of the Exchequer. But when Churchill passed in review all those who might be considered for the post, he made a tragic error which has become historic—he forgot Goschen.[1]

From 1887 to 1892, therefore, a trained banker was in charge of the finances of the country. *Punch* had no occasion to raise humorous complaints as to the lack of notion of the man at the helm, nor did Byron's poetic characterisation of former Chancellors of the Exchequer, "most orators, but very few financiers," who "grow quite figurative with their figures" find any application, and six lucid and clear budgets, against none of his predecessor's (and nine of Gladstone's) were introduced by him, and after careful planning he began in 1888 and systematically carried through the great Consols Conversion which bears his name and is one of the notable milestones in the history of the National Debt. Cheap money had compelled investors of every class to be satisfied with lower interest, and now, in an effort to lighten the public burden, the holders of Consols were also to be asked to consent to a reduction. In order to make it more

[1] The authority for this forgetfulness, the truth of which has been called into question more than once, is Sir Henry Lucy. In *The Diary of a Journalist* (and elsewhere) he relates that Lord Randolph himself told him "in words of which I made a note at the time": "A little less than a week after I had written to Lord Salisbury resigning the Chancellorship, I was walking up St. James's Street when I met —— (mentioning the name of a lady well known in political and social circles). She was driving and stopped the carriage to speak to me. She asked how things were going on. I said I thought they were doing nicely. Hartington had refused to join them, and whom else could they get? 'Have you thought of Mr. Goschen?' she asked in a voice and manner that indicated she knew more than the innocent inquiry indicated. I saw the game was lost. As I confessed to her, I had forgotten Goschen."

palatable, they were in 1889 converted from "their sweet simplicity" of 3 per cent to "the more elaborate formula" of $2\frac{3}{4}$ per cent, and in 1903 to $2\frac{1}{2}$ per cent, and as altogether £558 millions[1] came within the conversion scheme, it is easy to calculate how great was the saving for the Exchequer and eventually for the taxpayer also.

It might be assumed that so sweeping a measure would be popular only with those who held no Consols; when, however, in 1896 (and once more in 1897) the two and three quarters gradually rose and, after more than two and a half years of a two per cent Bank rate[2] reached $113\frac{7}{8}$—the highest price ever marked and at the same time the world record for a Government security—all those who had attacked Goschen's scheme were bound to admit that they had been wrong. Goschen, who all through his life had kept in close touch with his old university, visited Oxford on the occasion of some celebration soon after he had reduced the interest on Consols from 3 per cent to $2\frac{3}{4}$ per cent. When at the end of the gathering the usual vote of thanks was proposed and three cheers were called for, a voice from the back shouted, "Make it $2\frac{3}{4}$."

During the thirteen years which preceded Goschen's Chancellorship, Gladstone, who could not be brought to see that fundamental differences had arisen between them, tried again and again to induce him to come back in some form or other, possibly even outside politics, and offered him in 1880 the Viceroyalty of India, in 1882 the Secretaryship of State for War, and in 1883 the reversion to Henry Brand's office as speaker, but was met with a refusal every time. Two missions, however, Goschen did accept, and in 1880 he went as Ambassador Extraordinary—unpaid, for if he had joined the regular Diplomatic Service, he

[1] £166 mill. new Threes,
69 ,, Reduced,
323 ,, Consols 3 per cent.
£558 mill.

[2] From 22nd February 1894 to 10th September 1896 the Bank rate stood at 2 per cent.

would have had to vacate his seat—to Constantinople. A most distasteful task awaited him there; England together with that inorganic and weakly combination which at the time called itself the Concert of Europe and which, like the League of Nations of our own days, was totally bare of any consistent collective action or harmony, intended at last, after a delay of two years, to induce and compel Turkey to carry out the provisions of the Treaty of Berlin. Goschen was the better able to fulfil the hopes reposed in him as he had in the meantime learnt to deal with Near East Diplomacy, for he had in 1876 been sent on an official mission to Egypt.

Of the many problems which have been passed on by one generation of diplomatists to the next the Egyptian question is one of the few which have become simplified of recent years; but during the second half of last century it kept busy both the European Cabinets and the offices of the money powers.

Among the many heads of this Egyptian problem—itself a cross between Sphinx and Hydra—two (apart from political questions which are altogether outside the scope of this volume) tower far above the others in importance and complication—the Suez Canal and the Debts.

THE SUEZ CANAL

A TRAGEDY OF ERRORS WITH A HAPPY ENDING

NOBODY in or around Westminster was in the slightest degree interested in the Canal. The slower but strategically safer Cape route to the East seemed to the authorities good enough, and postal requirements were served by a more rapid service overland. Only the City showed any understanding of the project; but the appeal of shipping circles for the facility of a more direct route to the East on the ground that "an attempt to prove that ten thousand miles are the same as six thousand can never be successful" made not the smallest impression on the man at the helm. For Palmerston was and remained sceptical and prejudiced. He described the proposal as "a bubble scheme fit only to be palmed off upon French capitalists," and expressed unbounded surprise that Lesseps, the engineer who was promoting it, should have counted so much on the credulity of English investors as to think that they would subscribe. The Prime Minister cherished a preconceived notion that the undertaking would obviously tend to facilitate the separation of Egypt from Turkey—a development which at that time would have been most unwelcome, since England had nothing to gain by the emancipation of Egypt from the Turkish yoke. "We do not want Egypt," he said, "or wish for it ourselves, any more than a rational man with an estate in the north of England and a residence in the south would have wished to possess the inns on the North road. All he could want would have been that the inns should be well-kept, always accessible and furnishing him, when he came, with mutton-chops and post-horses."

This view, expressed in 1857, was no doubt well considered and quite certainly put forward dispassionately; but in his aversion from the Canal scheme Palmerston went rather too far when he practically accused Lesseps of an attempt at swindling by saying that "the object he and some others have in view will be accomplished, even if the whole of the undertaking should not be carried into execution." That even Robert Stephenson, son of the famous George, the inventor of the steam-engine, should have expressed the opinion that the Canal was "a physical impossibility" remains a mystery, and can only be explained on the ground that he made his false prophecy as M.P., and not as engineer.

One only among all the English politicians realised the value of the project and saw clearly that "one day the Canal would fall within the control of the strongest maritime power in Europe," and urgently pleaded that the Suez Canal be regarded "as a commercial project; as such let it stand or fall." To judge from his later co-operation, one might well conclude that Disraeli was the one to proffer this opinion, but it would be wrong. At that time the future purchaser of the controlling interest in the Canal still considered that its construction was "a most futile attempt and totally impossible to be carried out." The only one to take up the cudgels on behalf of the channel which he was one day to see in the hands of the "strongest maritime power" was—Gladstone, who subsequently, when his hopes were realised, described the acquisition as "an act fraught with folly". But statesmen enjoy the privilege of not needing to be consistent, even when they cherish, or imagine they cherish, principles!

But now Palmerston was still in power, and by public action and private intrigue the ball was set rolling in Downing Street to frustrate the plan; Lord Stratford, Ambassador in Constantinople, was instructed to make it clear to the Sultan in very unambiguous terms that if he confirmed the concession granted to Lesseps by the Khedive, he must not expect the maintenance of the integrity of the Ottoman

Empire to remain a guiding principle in British policy, "because the Sultan would himself have been a party to the setting aside of that principle".

But Ferdinand de Lesseps could do more than plan and construct a canal. His genius was able to inspire the Egyptian ruler to such an extent that the latter, at a great financial sacrifice to himself, and in defiance of his overlord the Sultan in Constantinople (who had for the time yielded to British pressure), even risked his throne in order to bring the Canal into being.

The first appeal to the money market was far from successful; only in Paris did the subscriptions pour in, and there less from conviction of success than in order to annoy and injure England. One subscriber asked at the company's office for a form of application for shares in the railway on the Island of Sweden. He was told that the scheme was not for a railway but a canal, not on an island but an isthmus, not in Sweden but at Suez. "It's all the same to me," answered the investor, "provided it be against the English, I subscribe." Of the four hundred thousand shares which were offered for subscription, French capitalists took one half, a hundred thousand went to the Ottoman Empire—England and the rest of Europe bought nothing.[1] Said Pasha, the Egyptian Viceroy, came to the rescue and subscribed for the remaining shares which were later to prove of such great value. In 1859, therefore, the work could at last be started at Port Said, not very far from the waterway which Rameses II had completed 3,300 years earlier, and which in 1798 Bonaparte had wished to reconstruct "to assure the full and exclusive possession of the Red Sea to the French Republic." This dream had been dispelled by Nelson, first at Aboukir, then at Trafalgar, though even so the idea was not buried. Goethe, the wise observer from afar of all the events of his day, had on the 27th February, 1827—thirty years

[1] Of the total capital France subscribed 52 per cent, the Egyptian Government 44 per cent, and the other European nations—4 per cent, including Britain, subscribing —frs. 42,500.

before the British public refused to interest itself in the scheme—uttered the uncanny prophecy, "I should wish to see England in possession of a canal through the Isthmus of Suez. It would be well worth living another fifty years for the purpose." Goethe's prophetic wish was fulfilled barely half a century later.

England, seeing that in spite of all obstacles the Canal would materialise, took the precaution in 1863 of carefully increasing the harbour facilities at Malta, yet at the inaugural festivities of the Canal in 1869 she still stood grudgingly on one side and was represented only by the Ambassador at the Sublime Porte, Henry Elliott. Prussia had sent its Crown Prince, the Emperor of Austria came in person, and for France, which had financed the Canal, the Empress Eugénie did the honours.

For Eugénie, formerly Countess Montijo, a member of a family which had always been rather looked down upon, the day had a particular and double significance. The ceremonial opening of the Suez Canal marked not only the arrival of the Second Empire at the peak of its power, but the triumph before all Europe of the descendants of modest old Grivenée of Malaga. Of his two daughters, one had married Matthieu Lesseps, Ferdinand's father, the other the Scot, Kirkpatrick of Closeburn, the Empress's grandfather. The great careers of these two first cousins once removed ended in catastrophe: Lesseps met his Sedan at Panama, Eugénie her Panama at Sedan.

But here in the roadsteads of Port Said the elegance of the Imperial yacht vied with the Khedive's pomp: from Trieste, Genoa, Leghorn and Marseilles five hundred cooks and a thousand servants had been imported, and a hundred and thirty vessels awaited the moment of crossing. The Catholic Church was represented by the Empress's Father Confessor, the Abbé Marie-Bernard Bauer—who had not always borne the pious Christian name of Marie! When the Empire collapsed, Bauer was making his second change, and the Churchman became a turfman. Now, however,

he invoked a blessing on the enterprise from the pulpit, and then the Empress's ship cut through the silken cord.[1]

From the first moment of the working of the Canal there arose, owing to the lack of foresight displayed by the English politicians, a grotesque, even a paradoxical situation: the profits of the French Company were accruing from British shipping.

Disraeli, with whom intellect and luck ever went hand in hand, was well informed. Henry Oppenheim, of Bruton Street, a financier with large interests in Egypt and one of the original proprietors of the *Daily News*, had heard that the impecunious Khedive Ismail, on the verge of bankruptcy, would have to sell en bloc his controlling holding of Suez Canal shares,[2] and he had discussed the matter over dinner with Frederick Greenwood, the editor of the *Pall Mall Gazette*. This able journalist at once recognised that here was far more than a news item,—an opportunity for a great stroke. Disraeli, "whose Oriental mind glowed at the prospect of so stupendous a deal," at once took matters into his capable hands. Both delay and publicity had to be avoided at all cost, and four millions sterling raised without, for the moment, obtaining the consent of Parliament. "There was only one firm that could do it—Rothschilds," decided the Prime Minister, despatched his faithful Montagu Corry (Lord Rowton) to New Court to negotiate for an advance, and on the 24th November, 1875, he was able to write to his Sovereign the now famous note, "It is just settled: you have it, Madam."

England was now mistress of the Canal, having paid £4,000,000 for an item which on the assets side of the budget for 1936 figured at £88,345,135.

From the English standpoint the acquisition of the shares was an event almost as important as the construction of the Canal.

[1] History, ever ready to add attractive details to bald narrative, has invented the pretty tale that the first performance of the Opera, Aïda, took place on the evening of the opening of the Canal. The statement is, however, incorrect. Ismail Pasha asked the greatest living composer, Giuseppe Verdi, to write an opera on an Egyptian subject; the first performance took place in Cairo, but not until 1871.

[2] Out of the total of 400,000 shares the Khedive held 176,000.

EGYPTIAN DARKNESS

Six years before the opening of the Suez Canal, European capital, ever on the look out for high rates of interest, had laid its clutches upon Egypt; the civilisation of Europe, represented by its finance, from the genuine money powers down to the financial adventurers and even more shady types, made it the cockpit of the most extravagant schemes, and Englishmen, Frenchmen, Belgians, Germans, Italians, Greeks and Turks worked in the acutest competition, without the slightest co-operation. The intermediate profit to be made attracted the promoters, and the promised rate of interest tempted the investors. When one banking group retired, another entered the field; on short-time treasury bonds the interest soared to thirty per cent, and even the first Fruehling & Goschen loan, one of the soundest, was issued at a price calculated to bring in more than eight per cent. New money was forced on to the country rather than offered to it; as a matter of fact it was not even invested very badly, and roads, railways and waterworks were constructed with an amazing rapidity, but quicker than the undertakings could yield a profit the coupons fell due. European eagerness to make loans went hand in hand with mismanagement at home in bringing about the ruin of the country.

It cannot be denied that the Khedive Ismail was a despotic and unscrupulous spendthrift who did not worry much about where the money came from. Bills rashly accepted by him were offered all over Cairo, and were bought up without much risk (at a discount of twelve per cent) by various agents, and when the numbers collected in one hand

had assumed such a magnitude that a prolongation seemed inadvisable, a loan was negotiated and issued in London or Paris, the proceeds of which were used in the first instance to discharge the Khedivial bills. It goes without saying that the money for the interest had to be found by the taxpayer, but it was not only under the Egyptian finance regime that the collection of the revenue had more and more taken the form of a tribute rather than a taxation, and the country suffered far greater injury from European oppression than it ever did from Oriental extortion.

The Egyptian soil had not lost its fertility, but in order to keep up the payment of interest the land was burdened with a load of taxes which it was unable to bear; these had become so high that the peasants no longer saw any sense in cultivating their fields, and in their despair destroyed their palm and date trees because they had to pay far more in contributions than their harvests produced in even the best years. It is a marvel that the breakdown did not occur earlier, but in 1876, when it had become impossible to extract anything further from the soil, there remained no alternative but to stop payment. The final statement showed a result which was both grievous and peculiar: interest had to be paid on £27 millions which Egypt had never seen, had never received, which on the long road from the banks of the Thames, the Seine and the Maine had somewhere, somewhen and somehow softly and silently vanished away. In so far as they had flowed into the coffers of the bankers they might be looked upon as legitimate promotion profits—in so far as they had found their way into the ever-wide open pockets of the sharks they were sheer brigandage. For Egypt herself this subtle distinction meant nothing; the fact remained that in fourteen years the country had incurred liabilities amounting to £77 millions and had received no more than £50 millions.

Until the day of bankruptcy very widely diverging views had been entertained about Egypt, its political future and its financial present, but now suddenly Europe came to the

unanimous decision that at whatever cost to the Egyptians, the coupons would have to be met. Capitalists grew excited and were screaming—loudest in London, slightly less in Paris which had to receive the most serious consideration, for France owned large blocks of bonds, and in 1868 and 1873 even the Société Générale had taken a leading part in the issue of loans[1] which, if everything had remained in the garden beautiful, would have brought their holders an income of 9.6 and 8.9 per cent. And so a coalition was formed between England and France which had for its object the return of Egypt to the path of solvent virtue. Not the remotest doubt existed in either capital that this finance-diplomatic co-partnership was a miscarriage, but in Paris they were more frank about it, and in the Chambre des Députés it was openly stated that this alliance was a very good thing, and so was the alliance between a rider and a horse, "mais il faut être l'homme et non pas le cheval," and that it was impossible to get rid of the feeling that in the matter of Egypt, France would never achieve the position of being the rider.

A Commission was appointed, the English section having at its head Sir Evelyn Baring (first Earl of Cromer) who from 1883 to 1907 was, as Consul-General, the real governing power of Egypt, and thanks to his quiet, tenacious perseverance and energy, turned the apparently hopeless chaos of the 'eighties into the Egypt of the present day; his financial adviser was the twenty six year old Edgar Vincent (Lord D'Abernon).[2] In order to protect the interests of the creditors the Caisse de la Dette, the Anglo-French condominium, the Dual Control, the International Control —Rosebery called it "the international chaos"—began its activities. The bombardment of Alexandria by the British Fleet caused the first rift in the never too cordial Entente, and France retired from the Nile. If she had thought and acted less unskilfully, she would have been able to divide

[1] 1868, £11,890,000 7 per cent issued at 73; 1873, £32,000,000 7 per cent issued at 79, together with Bischoffsheim & Goldschmidt.

[2] See Appendix page 399.

the government of the country with England. For the whole world, however, it was better that Britain alone should predominate.

For the Egyptians themselves the result of the Financial Administration was that the collection as well of the old as of the newly imposed taxes was carried out with European efficiency and brought harder times than in the days of the worst Khedivial mismanagement. For the bondholders the outcome was that by 1888 the corner was turned, and from 1890 onward it was even possible to grant a certain amount of fiscal relief to the population. Nor did the fat years of financial prosperity, following on the many lean years, tarry much longer; they began in 1898, when Sir Ernest Cassel and his National Bank of Egypt took the financial administration in hand.

In briefest outline and omitting all reference to political questions, this was the stage on which events in Egypt took their course.

THE COUNCIL OF FOREIGN BONDHOLDERS

EGYPT AND GOSCHEN

QUITE apart from Egypt, foreign issues in a questionable shape[1] had once more assumed such an extent that banking circles themselves came to the conclusion that it was high time something was done. The purpose of the intended Committee was the protection of the injured investors, but the fear that further delay might seriously harm the so lucrative issuing business of them all played a silent but a most important part in its formation.

Brilliant as were the achievements of the Council of Foreign Bondholders, yet something quite different was originally planned: it was intended to constitute an international organisation with its chief seat in London, and to ask Lionel de Rothschild to become the first Chairman. But just as serious steps towards the formation of the Committee were being considered (1873), Italy and Austria used methods in connection with the payment of their coupons against which it would have been the task of the Council to protest, and those loans had been issued by Rothschilds. Accordingly it was decided that it would be better not to choose a partner in a firm which was too actively concerned in the foreign loan market. Robarts, Lubbock & Co. were bankers proper, from whom no sort of unpleasant surprise need be anticipated, and so Sir John Lubbock became the first Chairman of the Council, to-day known as the Corporation of Foreign Bondholders.

The aim of the Council originally had been to induce the

[1] See page 328.

Government to take an active part in its operations—to "compel foreign governments to pay the debts incurred to English subjects," but the Council's expectations in this respect were doomed to disappointment. The first blow came through the outspoken reply of the Chancellor of the Exchequer. That it should have been Goschen who held this post at the time, led to one of those unfortunately all too rare amusing and piquant situations; the Minister was bound to say that it was a dangerous idea to create a national obligation, guaranteed by the full weight of the English Government, and the former issuer of foreign stocks had to point out that an investor who lends his money to a foreign government must know that he "gets high interest, because he incurs a risk."

In the House Goschen's position was not enviable, and in the course of the debate on Egyptian Loans a well informed and shrewd Opposition gave him a mauvais quart d'heure; Henry Labouchere,[1] who was particularly alert in financial matters, kept worrying him with questions as to the details of the issue of those loans, but the Chancellor of the Exchequer seemed to suffer from a complaint not infrequently met with in Ministers—a defective memory—for he stated again and again that he knew nothing about them, till finally Labby, the enfant terrible of the House of Commons, interjected, "Then who carried them out? It cannot have been all Mr. Fruehling."

In England the Council of Foreign Bondholders at first tried single-handed to bring some order into the Egyptian chaos, and Sir Henry Drummond Wolff[2] and Goschen were invited to go out to study the complicated position on the spot. Goschen was not enthusiastic; the fact that Egypt, whose entry into the Foreign Loan rubric of the Stock Exchange List he had sponsored, stood on the verge of ruin could not bring him to a decision, but when he realised that "vast misery would be caused in England,

[1] See Appendix page 400.

[2] See Appendix page 400.

Scotland and Ireland by any decided bankruptcy on the part of Egypt" his objections were overcome and, together with Sir Henry, he embarked for Cairo.

Their achievements did not amount to much, and in Egypt it did in fact require the "full weight of the English Government" to ensure that "the debts incurred to English subjects" were paid.

The question whether it was exclusively the interest of the bondholders which induced Downing Street to take this step which Goschen himself described as dangerous, need not even be touched upon.

BARON HIRSCH

LANGRAND-DUMONCEAU—THE TURKISH RAILWAYS

ANDRÉ LANGRAND, a Belgian adventurer of more than modest antecedents, who by an ostentatious display of religion had managed to secure the Papal title of Comte Langrand-Dumonceau, had got into difficulties in 1868, and after three years of the most desperate efforts to keep his head above water, had finally collapsed in 1871. To all outward appearance his professed aim had been "to christianise" capital, a device which has always possessed a certain amount of attraction; in fact, however, he intended to form, by excluding the members of all other faiths (a limitation which subsequently proved to be impracticable and had to be dropped) a Roman Catholic bank-like organisation; he knew, like Bontoux in later years, that he could rely on the aristocracy of France, Austria and Bavaria to provide the necessary capital.

He imagined that the quickest and most thorough-going way of achieving his pious object was to buy land all over Europe, and to float companies, which gradually came to number 32, for the most varied purposes. With the sums which he received in application money for his new companies he bought up shares and debentures in the existing ones, and so, in accordance with the good old custom, they all became closely linked up. There was really no need of the religious label for a scheme of this kind—a member of any other denomination could have carried it through just as well.

The head of the whole combine was the International Land Credit Company, whose directors were men of good

social position, Lord Salisbury being for a time its Chairman; not the slightest breath of suspicion ever attached to any one of them. The concern collapsed because it had become so involved that it was impossible for anyone to have a clear grasp of all its activities, and because the most important tasks were entrusted to incompetent hands. A subsequent investigation, however, brought more serious matters to light: the most flagrant frauds had been committed, and fictitious dividends had been distributed. Langrand was charged with fraudulent bankruptcy; the way in which his clerical friends were able to delay the proceedings against him caused riots in Brussels, and when things at last came to the point, he had escaped to Brazil; he was eventually sentenced to three years' hard labour.

That the liquidation of the International Land Credit Co. should have been carried through by Sir Henry Drummond Wolff is one of history's minor jokes; a greater one was that there did really exist some quite valuable assets, amongst them a concession to construct railways in Turkey and that the man who acquired it from the estate of the bankrupt should be Baron Hirsch.

Hirsch, whose grandfather was Court Banker in Bavaria and had received a title[1] as far back as 1818, came from a good family, and the financial infant prodigy who at the early age of seventeen began (in 1848) to interest himself in railway enterprises and subsequently in speculations in copper and sugar, always had at his disposal the necessary means to carry through his schemes. After he had by his marriage in 1855 with Clara Bischoffsheim[2] become related to both partners, they were always pleased to allow him to use the organisation of the banking house of Bischoffsheim & Goldschmidt for his transactions, and at times they also left the management in his hands, but, a little afraid of his all too great spirit of enterprise and daring—others less

[1] The original title was Hirsch auf Gereuth; in 1869 the family was raised to a Barony.—Hirsch's visiting card curiously enough read, "Maurice de Hirsch, Baron." For a time he held the office of Belgian Consul General.

[2] See page 326 note.

favourably inclined occasionally thought him reckless—they did not take him into partnership. To complete the character sketch of this unusual man it should be added that though he had a sense of humour, yet ultimately he became bitter and sardonic.

Ali Pasha, the enlightened Grand Vizier of Turkey, took the greatest possible trouble to interest financial Europe in the opening up of the Ottoman Empire by means of railways, but everywhere met with refusals; the idea of having to deal with Constantinople and its intrigues was enough to frighten off even the rashest financier. Hirsch who, in the course of building his railways in Austria, Hungary and Russia, had learnt how to handle Governments which were not easy to deal with saw, when he had more by chance than by good management acquired the concession, the enormous possibilities both commercial and financial, and although at first he was single-handed, he was able to work up the courage to tackle the enormous scheme.

In those days, however, the gateway to Turkey was not yet, as it was in later years, the Brandenburger Tor in Berlin; it stood in Vienna. In 1868, therefore, when Hirsch, together with Bischoffsheim & Goldschmidt, began his first Near Eastern venture, the East Hungarian Railways, he enlisted the co-operation of the Anglo-Austrian Bank, just as twenty years later the Deutsche Bank invited the co-operation of the Wiener Bankverein when it joined the ranks of the builders of Turkish railways. Hirsch's plan now was to extend the Austro-Hungarian lines to the East and connect them with his future system. During these negotiations also Vienna was under the fateful curse that no one ever knew at the right moment what was going on. When the powers that had refused to come in subsequently found out what an opportunity they had missed, they accused Hirsch of having intentionally neglected Austria.

The willingness at the Golden Horn, on the other hand, was great, and Hirsch carried out all the preliminary work

himself; the conditions ruling in that country were no obstacle for him—he knew how to make them serve his purpose. In 1869 he began the construction of the first section which was to connect Constantinople and Salonika, and at the same time, even before the formation of the Oriental Railway Company, he started to arrange for its financing. He chose an entirely novel type of Government loan: the 3 per cent. Turkish Lottery Bonds which carried a low rate of interest but were paid off by drawings every two months at a very high redemption price; they enjoyed great favour amongst small investors on the Continent, especially in France and Germany, and continued to do so although as early as 1875 the Sublime Porte defaulted on the drawings which, however, were resumed in 1881 (under the Decree of Mouharrem); payment of interest stopped in 1876.

It would go far beyond the scope of this book to try and give even a slight sketch of the vicissitudes of the Oriental Railways[1] (which connect Constantinople and Adrianople with Western Europe). It suffices to state here that Hirsch, advised by the best engineers obtainable, and financially backed by continental banks, although not until they saw that the venture was not likely to turn out an adventure, was able to carry his plans to a triumphant conclusion. From every point of view the railways, which he completed in 1888, were a gigantic success; they were a civilising influence of the very first rank A foolhardy promoter had grown into a leader and a predominant money power on the grandest possible scale.

It is as impossible to form even an approximate idea of the fortune amassed by Baron Hirsch as it is to arrive at an accurate estimate of the sums which this most generous of European financiers gave away, but a conservative guess might fix the amount at £20 millions at the least. To the

[1] Further information as to these, the Anatolian Railway which connects Constantinople with Angora and Konia, and the Bagdad Railway which continues from Konia to Iraq, is contained under the heading "Bagdad Railway" in the chapter "Deutsche Bank."

Jewish Colonization Association alone, which he founded and which has great landed property in the Argentine, in Canada and in Asia Minor, he gave 11 millions, thus making it the greatest charitable trust in the world. As he himself used to say, "he raced for the London Hospitals" (and it is hardly necessary to point out that it was the gross receipts which he handed over); when in 1892 his filly, La Flèche, won the Oaks, the St. Leger, the One Thousand Guineas and the Cambridgeshire (but missed the Derby) the hospitals also had a good year and were able to divide £40,000 between them.

Great as he had become, he had not been able to get rid of many human weaknesses, one of the strongest of which was his enormous, almost morbid, ambition to shine in society, which detracted from his inner worth and at times made him look petty and comical. In accordance with his circumstances he lived on a princely scale, had vast estates in Moravia and Hungary, often leased country houses in England and entertained in great style at Newmarket and at Bath House.[1] The Prince of Wales (Edward VII), attracted by the Baron's enthusiasm for the Turf, his philanthropic ardour and his wide knowledge of men and things, was frequently his guest, especially in Hungary, and Hirsch's satisfaction at being allowed to have the heir to the British throne staying with him consoled him for the many snubs from strait-laced circles to which he quite unnecessarily again and again exposed himself.

The Baron had the great sorrow of seeing both his children die in his lifetime. To a message of condolence on the death of his son in 1887 he gave the characteristic reply, "I have lost my son, but not my heir. Humanity is my heir."

He would much have liked to see a marriage between this young man, Lucian, of whom he himself had said, "he is quite unlike me, he is very respectable and hates money," and Miss Margot Tennant.[2] When subsequently someone

[1] See note, page 31.

[2] Countess of Oxford and Asquith.

had the bad taste to say to the father, "What a fool Margot Tennant was not to have married your son; she would be a rich widow now," the Baron made the felicitous rejoinder, "No one would die if they married Margot Tennant."

From 1884 on, Hirsch had had many business relations with a still very young man; the confidence which he placed in him grew so great that in 1896, when Maurice de Hirsch died it was found that he had appointed him executor of his vast estate. This young man, Ernest Cassel, had been, until the Baron made it possible for him to start on his own account, in the employ of the same bankers with whom he himself had at one time been collaborating—Bischoffsheim & Goldschmidt.

BISCHOFFSHEIM & GOLDSCHMIDT

A STUDY IN FINANCIAL GENEALOGY *

WITH their points d'appui in Frankfort and Brussels, their settlements in Paris, Antwerp, Amsterdam and since 1846 in London and their numerous affiliated banks, Bischoffsheim & Goldschmidt, who for many to-day are little more than a name, belonged for several decades to the strong money powers. Between 1866 and 1875, when the market in foreign loans reached its peak, their transactions were on an extraordinary scale, but as they also gave rise to much talk, those years can hardly be looked upon as the most flourishing period of the house.

The connections of the Bischoffsheims were wide-spread and manifold; their history in part peculiar, their genealogy complicated and interwoven, like that of a reigning family.

The founder of the family was Raphael, who died in the year of Waterloo. Louis Raphael, his eldest son, left Germany when still very young; at the age of twenty he founded in 1820 a firm in Antwerp which must have developed rapidly, for barely two years later he was able to bring home as his wife Amalia Goldschmidt, a sister of Benedict H. Goldschmidt,[1] the wealthy and highly respected Frankfort banker; through this marriage the Bischoffsheims became related to the whole of the future financial Europe.

[1] Benedict H. Goldschmidt had ten children, of whom for our purpose only two are of interest, Leopold Benedict H., who in 1855 married Regina, a daughter of Jonathan Bischoffsheim (of whom more will be said in the course of this chapter) and Maximilian Benedict H., who in 1878 married Minka Caroline, the daughter of Baron Wilhelm, the last of the Frankfort Rothschilds and in 1903 received a Prussian title under the name of von Goldschmidt-Rothschild.—Long before it went into liquidation in 1900 the firm of B. H. Goldschmidt had lost much of its former importance, but still remained amongst the first class Frankfort banking houses.

From Antwerp Louis Raphael Bischoffsheim, the real head of the far-spread house, moved in 1848 to Paris. By his dealings extending over many countries he laid the foundation stone of a vast fortune, was extraordinarily charitable, and devoted himself seriously to literary interests.

The centre of gravity and the success of the Paris house lay in its close connection with great French banks, with the Comptoir (National) d'Escompte, with the Société Générale, and especially with the Banque de Paris et des Pays-Bas, the result of a merger carried through in 1872, the details of which are described in the chapter on the Great French Credit Companies. In these great financial transactions Louis Raphael Bischoffsheim received between 1858 and 1866 valuable assistance from his nephew, Ludwig Bamberger,[1] the future co-founder of both the Reichsbank and the Deutsche Bank.

When, in 1830, Belgium became independent, Jonathan, the second son of Raphael, left Antwerp and settled in Brussels. No branch proper was established there, but many opportunities for big business arose. Various Belgian railways, whose construction began in 1834, were started, and a share was taken in the formation of the Société Cockerill at Seraing, among the largest iron works in Europe. From that time on when the Company was still known simply as John Cockerill and Seraing belonged to Holland, the very efficient King William I. had been interested in it directly and not only through his Société Belge de Crédit,[2] which in this and other dealings joined hands with the Bischoffsheims.

Jonathan, who enjoyed extraordinary confidence all over the country and occupied a quite exceptional position in Brussels, worked out the fundamental scheme of the Banque

[1] Of the daughters of old Raphael Bischoffsheim Amalia married the banker August Bamberger of Maintz, of whose son, Ludwig, much is said in other parts of this book. Heinrich, another son, administrateur of the Banque de Paris et des Pays-Bas, married Amalie, the sister of the great Baron Hirsch, q.v. The firm of Bamberger & Co. of Maintz was merged, in 1909, in the Disconto Gesellschaft. A second daughter of Raphael Bischoffsheim, Clara, was the wife of L. Cahen d'Anvers who is described in the chapter Bal Mobilier.

[2] As to King William and his Société Belge de Crédit see page 114.

[*Photo: The Rischgitz Art Studios*

HENRY LOUIS BISCHOFFSHEIM

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Nationale de Belgique (established in 1850), and stands in the front rank of the founders of the (old) Belgian currency. His whole life long he remained the confidential financial adviser of this central bank as well as of the Kings Leopold I. and Leopold II. His services to the State were rewarded by his election to the Senate and his memory is kept green by the fact that the name of the street in which the greatly esteemed man had lived, was four days after his death "par arrêté du Collège des Bourgmestre et Echevins, en date du 9 février 1883" changed from Rue de l'Observatoire to Boulevard Bischoffsheim.

Jonathan had in 1832 married Henriette Goldschmidt (whose sister, Amalia, was the wife of his brother, Louis Raphael). Of his daughters Regina married in 1855 Leopold B. H. Goldschmidt (see note, page 325), and Clara in the same year became the wife of Baron Maurice de Hirsch; his son was Ferdinand Bischoffsheim, who became distinguished both as Art Collector and as one of the great viveurs of the Second Empire.

Louis Raphael's sons were Raphael Louis—who studied technology, established great foundations, especially for astronomical purposes, was in 1890 elected a Membre libre de l'Académie des Sciences, and did not become a banker till 1873, after his father's death—and Henry, who was enabled by the social gifts of his wife—Clarissa Biedermann, from Vienna, a sister of Mrs. James Stern, of Stern Brothers—a great lady who not only by her charities but also by her personality won the esteem of Queen Victoria —to play an equally great part in South Audley Street (Bute House) and at 31 Throgmorton Street, the London business premises of Bischoffsheim & Goldschmidt.

Solomon Henry Avigdor, the son-in-law of Sir Isaac Lyon Goldsmid—one of the greatest figures in the financial world in the beginning of the century, prominent in the foundation of London University College and in 1841 the first Jewish Baronet—had begun by joining the firm, but

his whole character was against his becoming a banker; he enjoyed life to the full, made nothing but practical jokes at the office, and his partners were not sorry to see the last of him. For a time he was Ambassador in Paris—of San Marino, got himself created Duke of Acqua Viva(!) and attained the highest moment of his curious career when he fought a duel with Cavour, at the time only a simple journalist. After his departure the name of the house, which till then had been Bischoffsheim, Goldschmidt & Avigdor, was altered to Bischoffsheim & Goldschmidt.

In conjunction with related houses and associated banks they carried through, at the start, mainly railway flotations, especially in Italy. In France they helped to finance the Chemin de Fer du Midi and in the near Balkans co-operated with Baron de Hirsch in his first ventures. As in Paris, they attached great importance to the formation of banks, which were entirely or partially dependent on them; the London & San Francisco Bank,[1] and, in co-operation with the Ottoman Bank, in 1872 the Bank of Constantinople was started. For a while they were also amongst the financiers of unfortunate Egypt; there they controlled the Franco-Egyptian Bank (Banque Franco Egyptienne) which negotiated a loan in 1870, followed in 1873[2] by the largest hitherto granted to that country, subscriptions to which were invited by Bischoffsheim & Goldschmidt together with the Société Générale in Paris.

At this time issue followed issue without a break on the foreign loan market. Even if it be taken into consideration that the borrowing states often knowingly gave dishonest information which (if the intention to do so had existed) could not be so easily checked as it can to-day, and that the public in "vagaries of human folly" absolutely fought for high interest bearing stocks and therefore was itself indirectly responsible for their issue, yet the burden of mischief to be borne by the issuing houses is heavy enough.

[1] See note, page 302.

[2] 1870, £7,142,800 7 per cent at 78½; 1873, £32,000,000 7 per cent at 79.

As history repeats itself, so does human frailty; there is but little to choose between the exaggerations of those days and the intoxication (see the chapter bearing that title) of the eighteen twenty-fives and the excitement of the late nineteen twenties in America, when young men representing big New York banks camped in Balkan and South American capitals in the frantic hope of inducing the local financial dignitaries to issue bonds of which by 1934 more than a third were in default.

Now, after 1870, the public conscience, represented not only by the serious financial press, rebelled against "the powerful and unscrupulous financial vultures." Sir Henry James (Lord James of Hereford), a great public figure as lawyer, statesman and sportsman, who when he took a matter in hand, also carried it through with relentless logic, in 1875 compelled a most unwilling Government to appoint a Select Committee to investigate the details of the issues, a step hitherto unknown in Parliamentary history. Sir Henry presided, and the Committee included, among other experts, John Walter of *The Times*, and curiously enough, the then not yet unmasked Albert Grant (q.v.). The loan promoters had to listen to quite a number of most uncomplimentary remarks, such as "band of conspirators," "a remedy ought to be found in the tribunals of the country"; one of the parties attacked was Thomson, Bonar & Co. (dissolved in 1923; one of whose partners was a director of the Bank of England) which had collaborated in the financing of the North Eastern Railway, and in France of the Chemin de Fer de l'Ouest, and the Chemin de Fer d'Orleans, and now in these hectic times had negotiated loans for Guatemala and Uruguay.[1]

Especially close was the investigation into the circumstances in which the loans for Paraguay[2] were made through Robinson, Fleming & Co., and to Santo Domingo, Costa Rica and Honduras (which latter would have yielded a return of 12½ per cent), in which three[3] Bischoffsheim &

[1], [2] and [3] See appendix page 403.

Goldschmidt had also been concerned. Lionel de Rothschild, cited before the Committee, said very calmly and not without a certain humour, that in his view the practices employed in connection with the Honduras loan had not the least to do with loans in general. He added that without doubt the money had been misappropriated, but he did not see how this could be remedied in the future.

The findings of the Select Committee were incorporated in a Report which completely failed in its purpose: those who knew the circumstances could not have learnt anything from it, and those who wanted information could not obtain the report, for it was not available anywhere—it had softly and silently vanished away. As for the rest the matter was dropped.

Other and serious mistakes were made by the banking house which, as was said, were to a large extent due to Henry Bischoffsheim's both sanguine and energetic temperament. Some of the transactions—as for instance a great engagement in Erie shares and a participation in the Swedish Central Railway—required many years before the amounts locked up therein were released, and were eventually cleared up by the efforts of their gifted young collaborator, Ernest Cassel.

SIR ERNEST CASSEL

KING EDWARD VII—LORD ESHER—LORD FARQUHAR

In recognizing the merits of great men, posterity has always placed the soldier in the forefront, the statesman following after an adequate interval. For economic statesmanship Clio has but little appreciation, and her stylo has only made slender notes. The share which merchants took in the incorporation of India into the Empire is at least as important as that of Generals and Governors-General, but the number of commemorative tablets erected in their honour lags far behind. The makers of South Africa, the Randlords, received at most a reflected glory from the blinding light which Rhodes shed on all around him, and in the Nile Valley the gigantic figure of the first Lord Cromer (Evelyn Baring) casts a shadow on all his associates. It cannot, however, in the least detract from the credit of the great Pro-Consul if amongst those who helped in the reconstruction of modern Egypt, a lofty pedestal of his own is accorded to Sir Ernest Cassel.

Ernest Cassel fits into no category and cannot be classified under any rubric; he was not a banker nor the head of a great business house nor did he preside over any board, and yet for very many years he was the strongest European financier. He combined the art of a finished diplomatic negotiator with the gifts of a never failing visionary; he lacked all sense for any kind of speculation and, perfectly straightforward in his methods, was innocent of the slightest trickery. It was his business to make money, and he made

it on an immense scale—the main part of it in Egypt, but only through enriching the whole country itself, not by extracting money from it—and the financial genius of this immigrant was never directed to any other aim than the service of the Empire. The enormous fortune which Cassel made in a relatively short time gave him an extraordinary power over men and institutions, and to his credit it must be said that this power was not once misused by him.

His career gives the impression of "a romance of finance." His father, Jacob Cassel, conducted in Cologne a banking business which was at most of local importance. Employed in the first instance by the bankers Eltzbacher, in his native town, he passed, after a short engagement with the commission merchants Blessig, Braun & Co., in Liverpool (in 1869), and with the Anglo-Egyptian Bank in Paris (in 1870), to Bischoffsheim & Goldschmidt, where as early as 1874 he drew a fixed income of £5,000 a year. His main activities lay in the financing of railways and in the straightening out of existing, but not very profitable, undertakings in which that house was interested, and one of his successes for his firm was the reconstruction of the Erie Railway which had failed in 1875. In connection with this transaction he came into close contact with Kuhn, Loeb & Co., in New York, and their partner Jacob H. Schiff (who towards 1900 began to occupy an outstanding position); his relations with the great banker took a more personal turn when, during the course of a journey to Switzerland, Schiff's daughter (Frieda, since 1895 Mrs. Felix Warburg) slipped at Chamonix and fell into a crevasse several hundred feet deep, and Cassel without a moment's hesitation jumped after the child and saved her from serious injury.

In the rising industries of Sweden he found the first considerable scope for his abilities and his creative methods. In the early 'seventies Bischoffsheim & Goldschmidt had become interested in the Swedish Central Railway and had locked up vast sums which brought no return. Cassel recognised that the undertaking was bound to remain

hopeless unless it should be possible to increase the output of the neighbouring Graengesberg iron mine (whose ore contained a considerable proportion of phosphorus) to such an extent that freights from the mine would provide the railway with continuous and remunerative employment. Just about this time the new process, invented by Sidney Gilschrist Thomas in 1875, of eliminating phosphorus from pig-iron, thus enabling phosphoric ores to be used, was being much discussed in technical circles, but completely ignored in England. Cassel held different views, took up a considerable participation in the struggling Graengesberg and introduced the Thomas process with such success that thereafter both mine and railway prospered exceedingly. Affairs in Sweden became more and more important, and laid the foundation of Cassel's fortune which in 1881, before he had reached the age of thirty, was already estimated to amount to £150,000.

Valuable as it was for the ambitious young financier to be able to rely in the carrying out of his grandiose schemes on the wealth of Bischoffsheim & Goldschmidt and to be on terms of close friendship with a great banker like Jacob H. Schiff, yet it was of still more use to him that Baron Hirsch decided to back his brilliant abilities. In 1884 Cassel left the banking house, in which he had a large interest although, like Hirsch, he had never been a partner, and started on his own[1]; from that time on he was a power in the City.

One of the first transactions he carried through on his own account, again in conjunction with Kuhn, Loeb & Co., was the reorganisation of the Louisville & Nashville Railway Co. in 1884. The next stage was Mexico; he took a leading interest in Mexican Central Railways (to-day incorporated in National Railways of Mexico) and in 1893 negotiated a large loan for that country; when, however, the local Government subsequently rejected his well thought out

[1] Down to 1898 he occupied the same offices as his former associates; it was not till then that he moved into premises of his own at 21 Old Broad Street.

and carefully prepared plans, he never again entered into any business which was in the slightest way connected with Mexico, and this decision also worked out to his advantage. A loan to China followed in 1895, and one to Uruguay in 1896.

It was said of Cassel that he never carried out a transaction which had not originated and ripened in his own brain and that he rejected every project which was brought and submitted to him, but this need not be taken too literally; at the same time there is no doubt that he never entered upon a deal which he had not himself studied in every detail, and when he turned his interests to South America, this implied that he had made the most thorough investigation into the budgets, the trade, the financial balance sheets and the currency conditions of those countries before he placed any issues on the market, and this conscienciousness distinguishes him from many others and especially from his nearest neighbours in Throgmorton Street.

In England two undertakings are indissolubly bound up with the name of Cassel: Vickers and the Central London Railway Company.

The Vickers transaction did not take place exactly as it has been described in the few instances where it is related at all. Siegmund Loewe, whose brother founded the great factory of arms Ludwig Loewe & Co., in Berlin, was manager, and subsequently a director, of Vickers, and socially acquainted with Joseph Nauheim, the right hand man at New Court. When, at the time of their extension, Vickers needed further capital, Nauheim introduced Loewe to Rothschilds, and a connection came about, not intimate, but very friendly and successful. A little later Cassel came in. The then firm of Vickers Sons & Co. was amalgamated with the Naval Construction & Armament Company of Barrow-in-Furness and with the Maxim-Nordenfeldt Guns & Ammunition Company, a fusion from which arose in 1897 the world-renowned firm of Vickers, Sons & Maxim (since 1911 Vickers Limited). All future transactions were made directly between Cassel and Vickers, although

nominally financed by Glyn, Mills & Co. At that time Sir Vincent Caillard, who was formerly in the Diplomatic Service and was one of the delegates for England to the Dette Publique at Constantinople, was coming to the front. Cassel first transferred to him the management of his National Bank of Egypt, and subsequently made him a director of Vickers, a position which he held down to his death.

In London itself Cassel took a leading part in 1894 in financing the Electric Traction Co. which in 1895 began the construction of the Central London Railway, the first underground tube in the Metropolis, and in 1900 opened it for traffic.

Cassel had an extraordinarily fertile mind, and took the greatest pleasure in watching the building up of a concern in which he was interested; he followed with the closest attention the development of the merchant bankers, S. Japhet & Co., who, coming from Frankfort in 1896, had settled in London, and attained in one generation the success and the reputation which are generally reserved to the intelligence and foresight of several. They were in 1909, when the share of the Darmstaedter Bank was paid back, joined by Sir Ernest as a limited partner and in his busiest hours he never hesitated to place himself, his experience and his connections at their disposal. On his instructions and for this particular transaction backed by him, whilst he himself remained in the background, Japhets in 1912 reorganised Waring & Gillow, in whose affairs Kennedy Jones, till then in Fleet Street and Lord Northcliffe's right hand man, was the driving power. When, in 1921, S. Japhet & Co. turned themselves into a limited company, Cassel took up a considerable block of shares, and at his instigation (Sir) Sidney Peel (Bart.)[1] joined the Board of which he still remains a member.

Cassel's real field of activities was Egypt. Shortly before leaving Cairo Lord D'Abernon had most ably reorganised

[1] See Appendix page 403.

the currency problem, but a thorough economic reform could only be carried through if *one* outstanding bank was able to eliminate all the others, especially those which represented the most varied national interests. Sir Ernest Cassel took this important scheme in hand, and under the auspices of the Government in Cairo the National Bank of Egypt came into existence in 1898, he himself taking up one half of the initial share capital of £1,000,000. At the outset the notes issued by the new Bank were not legal tender (they did not become so till 1914), but they were at once accepted in payment of Government dues. This bank, which carried out the functions of a State Bank, was followed in 1902 by the Agricultural Bank of Egypt (whose scope is sufficiently indicated by its name, and which went into liquidation in 1936). These two moneyed institutions at last provided the financial backbone which the country needed. Cassel's next step was the purchase from the Government of the extensive Daira Sanieh estates which, by means of the promotion of two great new companies (Daira Sanieh Co. and Daira Sanieh Sugar Co.) were opened up to modern exploitation.

To his financial genius Egypt is also indebted for the solution, on modern technical lines, of its ancient problem, dating back to biblical times, when the firm of John Aird & Co. built for the Irrigation Investment Corporation,[1] financed by Cassel, the Nile Dams at Assouan and at Assiut. Thus the blessing of fertility was brought back to the Nile Valley. To have carried out these undertakings in the face of every kind of opposition and intrigue was a great triumph of financial diplomacy. Egypt had now become a part of the Empire whose commercial activities were functioning perfectly, and Sir Ernest Cassel is entitled to a place in the ranks of Empire builders.

During the long years of waiting and inactive looking on, Edward VII, as Prince of Wales, had opened communica-

[1] Cassel became trustee for the Trust Certificate issued by the Corporation; he never sat personally on the board of any of his companies.

tions in all directions and made friends in every camp and in every circle. As King he not only refused to give up the circle which had provided him, as Prince, with stimulation and pleasure, but he intended to cultivate it all the more, for by its means alone he could remain in touch with the views and requirements of his time. In a period so strongly Imperialistic, politics and finance were more interwoven than ever before, and most questions of foreign politics were influenced by economic interests. No official staff would have sufficed in the age of the fight for petroleum, the industrialisation of Egypt, the settlement of the problems raised by the South African mines or the building of the Bagdad Railway. The range of advisers of the Sovereign had to be broadened by the inclusion of men who stood right in the centre of creative life and had a wide perspective. Sir Blundell Maple, the great Tottenham Court Road business man, Sir Thomas Lipton, of tea and *Shamrock* fame, the brothers Leopold and Alfred de Rothschild, various members of the Sassoon family, as well as Lord Esher,[1] may be included in this circle of friends in high positions who were in constant touch with business and were able to put their knowledge and their experience at the disposal of Edward VII. But none of them had the King's ear to the same extent as Sir Ernest Cassel.

Their relations began in 1896, immediately after and in connection with the death of Baron Hirsch, who for many years had been an entertaining and useful friend of the Prince of Wales. The unprecedented success of Cassel, who was barely five and forty, was bound to attract the attention of the Prince; Edward himself was equipped with pronounced business instincts, but, compelled to keep up the household of a Sovereign on the limited means of an heir apparent, he was, in spite of all his gifts for and interest in financial transactions, never able to bring order into his own monetary affairs. Cassel was undoubtedly not the first who tried his hand at the difficult task, but he was the

[1] See Appendix page 403.

first to bring it to a successful issue, and together with Lord Farquhar,[1] an aristocrat whom strong commercial abilities and a capacity to make money turned into a business man, saw to it that they never again got into disorder. That Sir Dighton Probyn, the official manager of the King's finances, was able to report to the usual Commission to inquire into the financial position of the new Sovereign, that Edward VII had ascended the throne "unencumbered by a single penny of debt" may safely be placed to the credit of Cassel as the adviser behind the throne. The fact that the relations between Sovereign and subject, which developed into an intimacy[2] such as history has but seldom seen, should not at any time have been disturbed, says much for the tact of those two great gentlemen. They came to a sudden end on the 10th May, 1910; the dying Monarch in his last hour of clear consciousness had once more sent for his old friend. "I knew that you would not fail me," he said to his visitor as, with his habitual courtesy, he laboriously rose from his chair. When Cassel left the Palace he felt that it was for the last time; shortly after the King became unconscious and, after a brave struggle, died at a quarter before midnight.

A personality of such unique strength, brought by his Sovereign into so high and exposed a light, and who received outward honours to an unusual extent,[3] was in the nature of things bound to be judged in the most varied ways. Of the many character sketches which were given of the man whom Edward VII on one occasion called "the cleverest head in England," Lady Oxford has perhaps written the

[1] See Appendix page 403.

[2] A fortnight before his accession Edward assisted at the wedding of Cassel's daughter Maud (who died in 1911) with Wilfrid Ashley (now Lord Mount Temple); as King he was godfather to his friend's granddaughter Edwina.

Miss Edwina Ashley married in 1922 Lord Louis Mountbatten, a member of the Royal family, and the daughter of this marriage, Patricia, has as her great-great-grandmother Queen Victoria, as her great-grandfather Sir Ernest Cassel, who, however, did not live to see this proud family connection (he died in 1921).

[3] 1899 K.C.M.G., 1902 K.C.V.O. and membership of the Privy Council; 1905 G.C.M.G., 1906 G.C.V.O. and 1909 G.C.B. Amongst the vast number of foreign decorations the very exalted Red Eagle of Prussia First Class with Brilliants were particularly prominent.

[*Photo: The Rischgitz Art Studios*

SIR ERNEST CASSEL

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most striking: "he was a man of natural authority, who from humble beginnings became a financier of wealth and importance. He had no small talk and disliked gossip; he was dignified, autocratic, and wise." How strong, however, were the undercurrents and prejudices which were working from many sides against the King's friend may be seen from the fact that it was not until thirteen years after the registration of his colours that he was in 1908 elected a member of the Jockey Club.

The fact that he went on the Turf at all does not seem to fit in with the whole character of the man; his sole reason for keeping (from 1889 on) a racing stud was that in his view his great wealth in a way compelled him to incur this expense, and this compliance with external compulsion gives us the comfortable feeling that even very great men have their occasional little weaknesses. In fact sport had no attraction whatever for him, and his relations with his valuable library and his art treasures—paintings, china and early English silver—were as superficial as they well could be.

This man, who in his youth had dreamt of becoming a virtuoso on the violin—Alfred Beit's early ambition had been to be able to spend a thousand a year—eventually came to hold such ideas of money that he said of an acquaintance who had an income of two hundred thousand a year, "I do not call that rich." He spent money lavishly; at Moulton Paddocks, Newmarket (which he bought in 1899) he entertained Edward VII every year for several days; from 1907 his town residence was Brook House, and in addition he had estates near Cambridge and Bournemouth. His generosity, like everything else about him, was magnificent, and he was, as *The Times* said of him, "a veritable Prince of Charity", but all his gifts were influenced by the wish to be productive. The donations which he made during his lifetime to hospitals and educational institutions, among them the School of Economics, must have amounted to several millions. The organisation built up and worked

out on very extensive lines for German-English scholarships which Cassel presented and named after the King, belongs, like so many pre-war ideals and establishments, to the things of the past.

A peculiar mystery surrounded Cassel's religious denomination—not his convictions. It had been the wish of his dying wife, formerly Miss Anette Maxwell, with whom he was married a bare three years (1878 to 1881) that he should accept the Catholic Faith. He studied the doctrines of the Religion, the embracing of which he looked upon as a sacred legacy, and which he eventually did embrace, just as he studied his business documents—entirely without sentiment—and for a long time he constantly included a priest in his entourage, but he never became a good Catholic. His conversion was so little known that twenty years later, shortly before Cassel was sworn in to the Privy Council, Sir Almeric Fitzroy, the well informed Clerk to the Council, did not know whether Sir Ernest was still a Jew or had become a Christian, and which Testament he ought accordingly to have at hand to administer the oath. That he should be a Roman Catholic came as a surprise to everybody, even to the Duke of Norfolk, and at once the hope was expressed that Cassel would contribute towards Westminster Cathedral. Very many years later there were still so few who were aware of his change of religion that a vast proportion of those who wished to pay him the last honour (in 1921) would have expected the memorial service to take place at any other place of worship than the (very fashionable) Jesuit Church of the Immaculate Conception in Farm Street.

Cassel's political ideal was the rapprochement between England and Germany. Together with Alfred de Rothschild and Albert Ballin, the head of the Hamburg-America Line, he tried to prepare the respective Governments for direct mediation. Sir Ernest and Ballin subsequently unofficially, but with the knowledge of both Governments, carried on the negotiations so far that Haldane's official visit to Berlin took place. It did not become known till much later that

during those days Cassel was, we might say incognito, present in the German capital in order to bring Haldane and his own friends there together, and to further the conversations in every way. But to the great loss of the whole world all those exertions met with no success—and the only visible sign of that journey, which started so auspiciously, is a portrait of Haldane, painted on Cassel's instructions by Sir Arthur Cope, which hung at Brook House down to his death, and was then presented to the Judicial Committee of the Privy Council.

On the most varied occasions Cassel placed his international relations and his ability to give concrete form to abstract financial ideas, at the disposal of the Government, and it is due to his readiness to further the financial-diplomatic wishes of the Foreign Office that the State Bank of Morocco, now under French management with the name of Banque d'Etat du Maroc, was formed in 1902. When, in 1905, at the instigation of the Berlin Government the Dresdner Bank, with a view to promoting trade relations with Turkey, Greece and Egypt, had founded the Orientbank, and in 1909 the Deutsche Bank had opened a branch in Constantinople, Downing Street came—very belatedly—to the conclusion that something would have to be done to restore the vanished prestige at the Golden Horn, and accordingly in 1909 the National Bank of Turkey,[1] backed by Cassel, came into being.

Thanks to the great transactions which Sir Ernest Cassel had at various times carried through in the United States, he had gained an extraordinary knowledge of men and conditions in that country, and it goes without saying that he unreservedly placed this at the disposal of his country when in 1915 he joined Lord Reading's mission to arrange the first great loan for England. In spite of all this and of his incontestable services to the land of his adoption (and of the fact that he was one of the largest individual sub-

[1] When, after the war, all attempts to revive it had failed, it went into liquidation in 1925.

scribers to War Loans) he found himself, like so many others not of British birth, faced with the greatest difficulties, and in 1915 he and Sir Edgar Speyer had to defend their membership of the Privy Council, and they were requested to show by what authority they called themselves Privy Councillors. Such a thing can only happen in times of a war psychosis, but legal proceedings were brought, in the course of which Cassel, in the words of Sir Almeric Fitzroy, "behaved with the utmost correctness," whilst Speyer, on the other hand, was accused of a "studiously disrespectful" attitude, and that, although he was formally represented, he had "in substance told the King and the Privy Council to go hang." The Lord Chief Justice, Lord Reading, came to the only possible decision—that the appointments were valid. Cassel's success does not in any way soften the hardness of the steps taken against him.

In spite of all this injury, and "in spite of the sufferings that our contemptible spy-hunters caused him during the war" and who even attacked the wife of the Prime Minister, Lady Oxford, who wrote these words, "no one was ever more loyal or generous to the country of his adoption." Deeply hurt and offended, he retired into complete seclusion, and the active man, who formerly had stood in the centre of events, was now "a pathetic figure, a sermon on the vanity of great wealth" and in Bournemouth lived the life of a private citizen.

Notwithstanding the severe post-war depression, at his death in 1921 his estate still amounted to £7,551,608.

SIR FELIX SCHUSTER, BART.

UNION BANK OF LONDON—NATIONAL PROVINCIAL BANK—LORD INCHCAPE

A BANKER by birth, trained from his earliest childhood for his future profession, Felix Schuster was possessed of an extraordinary fund of knowledge on all practical and theoretical banking questions, whether English or foreign. He kept an eye on every detail in the management of his institution, but as in the mass of small things he never lost sight of the great, his influence was felt throughout the whole of the profession, and in his active days he was the greatest expert on banking.

In 1873, at the age of nineteen, he joined, and in 1878 became a partner in the firm of Schuster, Son & Co.,[1] part of whose business was in 1887 taken over by the Union Bank of London, and with this company, of which he was appointed a director in 1888 and deputy-governor in 1893, and whose affairs he conducted for almost a quarter of a century (from 1895 to 1918) as governor, the name of Sir Felix Schuster is inseparably connected.

The story of the formation of the Union Bank of London in 1839, and how for sixty-three years it remained a purely metropolitan institution, during which time it hardly had any history worth recording, has already been told in the chapter on Charles Geach; the two great movements towards concentration, and still more towards expansion, had passed it by without leaving a trace. It was not till 1902 that it risked the step of extending its activities to the

[1] How the Schusters came to England, see Appendix, page 397.

country, and a fusion was carried out with the various banks of the Smith family,[1] whose London house was known as Smith, Payne & Smiths.

The acquisition in 1903 of the London & Yorkshire Bank, formed as recently as 1872, but which had made very rapid progress, was the first step on the road to the north-east of England, and the purchase of the very great Prescott Bank[2] considerably extended the bank's business in London itself; and under the management of the gifted banker and organiser the years from 1912 to 1918, by which time the number of branches had risen to a hundred and sixteen, brought a series of brilliant successes to the undertaking which was now known as Union of London & Smiths Bank.

From the first moment when his influence began to be felt, Schuster was in favour of the widest possible publicity; it was he who introduced the bank speeches, with their economic retrospects and forecasts, and his reports at the general meetings were looked forward to and studied with the same interest and the same eagerness as the Budget Speech or the Guildhall speech of the Chancellor of the Exchequer. Again and again Sir Felix stressed the importance of co-operation in every sense of the word and to the greatest extent. In an address at the Institute of Bankers in 1906, which attracted considerable attention, he spoke in favour of a closer collaboration of the banks amongst themselves and with the Bank of England, and urged the formation of a small permanent committee to consider the creation of a gold reserve, to which the banks should contribute in proportion to their obligations, and which should form a kind of iron ration, available only in times of the direst need. He also strongly advocated European co-operation; he pointed out to his professional colleagues the grave problems "arising from day to day in many parts

[1] Abel Smith, whose Christian name has been borne by all his descendants, was senior partner in Samuel Smith & Co. which started in Nottingham in 1688; moved by an enormous urge for expansion, he was the founder of Smith, Payne & Smiths in London in 1758, and of Smiths Bank which he opened in Lincoln in 1775 and in Hull in 1784. See also page 77.

[2] Prescott, Dimsdale, Cave, Tugwell & Co. had been in existence since 1766.

of the world which will have to be faced," and told them that those problems could be solved only by "a united, not a divided Europe." This clarion call was sounded fourteen months before the outbreak of the Great War, at the Bankers' Dinner in May, 1913.

Schuster also did not escape unpleasantness and attacks during the war; in order to protect himself and be left in peace, he was forced to come before the public, and in his own name and that of his family he informed the Press, "We are at one with our fellow-citizens in their determination to support every step which will lead to a final and decisive victory of the British arms. . . . One of our sons has already fallen in fighting for this cause; all our other sons and all the other male members of our family who are of military age are serving with His Majesty's forces. We ourselves have always been and are now ready to give, every service that it may be in our power to render, but, having shown our loyalty and devotion to this country by unmistakable signs, we hope we shall in future be relieved from the necessity of having to make a public declaration of these feelings." Schuster had loved the old Germany with his whole soul; for the new regime which had risen to the surface in 1914 he had nothing but scorn and hatred; "I deeply regret that age prevents me to join the Army."

When after the outbreak of the war the City had got over its first shock, the task of financing the country and of regulating the balance of payments in connection with the Bank of England had at once to be taken in hand. A special commission to master those problems was appointed and its energetic leading spirit was Sir Felix Schuster. He was again called in, together with Sir Edward Holden and a Treasury official, when it became necessary to defend the pegged pound sterling; very soon, however, the Government lost its inclination to meet the difference between offer and demand, and in consequence of this partial withdrawal Sir Edward became anxious. "We had better

withdraw," he suggested to Schuster, "we shall lose our reputation if it is seen that sterling will recede." In vain Schuster tried to get Holden to understand that every true expert would realise the difficulties which the Committee had to face, and that no thinking honest man would look upon it as a failure; that he too was proud of his reputation, but that it was not at stake in this case. Holden refused to accept this version and withdrew; Schuster loyally stuck to his post.

In the years of his greatest activity Sir Felix Schuster—created a Baronet in 1906 and a member of the Council of India from 1906 to 1916—belonged to all the commissions and committees which fall within the sphere of a great banker. But in addition to this he placed his vast knowledge, his labours and his active interest at the disposal of London University College, the School of Economics and various Hospitals; in his leisure hours he was a fine pianist, and during his vacations a mountaineer. In politics Sir Felix did not come much to the fore, and when at the General Election of 1906 he put up as a Free Trade candidate for the City of London, he was defeated; at the outset he opposed Joseph Chamberlain's Tariff Reform Movement, but in 1931 he felt himself reluctantly compelled to confess that, whilst he considered the continuance of Free Trade to be the economic ideal, yet under modern conditions he could no longer advocate the practice of the one-sided British variety.

The coping stone of his brilliant activities as banker and of his policy of concentration was laid by Sir Felix Schuster in 1918.

The National Provincial Bank of England,[1] which had been founded in 1833, and had come to London in 1866, just in time for the Overend & Gurney crisis, had by the end of the century somewhat fallen into the background. For a

[1] As to the foundation of the National Provincial Bank of England see the chapter Thomas Joplin.

[*Photo: The Rischgitz Art Studios*

SIR FELIX SCHUSTER, BART.

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few years its balance sheet had continued to show the highest figures as to deposits, but one after another its competitors (Lloyds, the London & County, the London City & Midland, and even the very youthful Barclays) had overtaken it, as its concentration activities had not kept pace with those of its rivals, and from 1900 had almost entirely gone to sleep.

Now in 1918 Sir Felix Schuster and Lord Inchcape (James Lyle Mackay)[1], one of the ablest organisers in England and outstanding on the Board of the National Provincial, worked out the huge scheme of welding their two banks, which complemented each other most excellently in every respect, into one institution.

This merger opened up the era of the gigantic fusions; the first of the Big Five of to-day—the National Provincial & Union Bank of England, whose name was in 1924 shortened to National Provincial Bank—had come into being.

Amongst the important undertakings which were absorbed by the new Bank mention may be made of the old-established Sheffield Banking Company (founded in 1831) and the younger Bradford District Bank (dating back to 1862); Coutts & Co. were acquired in 1920, but it was thought well not to let the world-renowned name perish, and the highly thought of private bank was allowed to all outward appearance to retain its independence.

When, in 1918, the great epoch making fusion had been carried through, the only men who came into consideration for the Chairmanship of the new concern were the two who had created it. Inchcape, however, great as was the experience which he had acquired in his vast business which extended over the whole of the Eastern hemisphere, did not possess the special knowledge which is required to manage a bank; Schuster, although only sixty-four years of age, but after an exceedingly busy life no longer at the full height of his powers, was not over-inclined to take sole

[1] See Appendix page 405.

charge of the enlarged Bank. So the very rare expedient was adopted of not electing a sole Chairman; the two men stood turn and turn about at the head of affairs.

The last time Sir Felix Schuster presided at the general meeting was in 1926; thereafter he retired from active participation, was satisfied with a directorship, and remained a member of the Board of the National Provincial Bank down to his death in 1936.

SIR EDWARD HOLDEN, BART., AND THE MIDLAND BANK

CAPITAL & COUNTIES BANK—REGINALD MCKENNA

FOR half a century the Birmingham & Midland Bank, founded by the enterprising Charles Geach in the boom year 1836,[1] remained a provincial bank; as far back as his days the right to issue notes had, in 1844, been ceded to the Bank of England, so that the road to London would have been open, but it was not till forty-seven years later, in 1891, that the path was taken by Edward Holden.

That Lancashire lad's career was not clearly marked out and made smooth for him from his childhood on, like that of his contemporary, Felix Schuster, together with whom, however dissimilar they may have been in important respects, he stands in the same niche. Holden's rise from the smallest beginnings—we might almost be inclined to call it a romantic rise if its scene had not been the all too matter-of-fact milieu of a joint-stock bank—shows clearly that in this country the topmost rungs of the ladder are still accessible to every one—provided that his abilities and strength are great enough.

He started right at the bottom, as office boy, then became a junior clerk in the Manchester & County Bank,[2] where he remained for fourteen years, spending his evening hours, together with his young wife, in a close study of financial matters and of the theoretical problems of his profession.

[1] See chapter Charles Geach.

[2] Founded in 1862 and subsequently known as the County Bank, it was in 1935 merged in the District Bank, Manchester (formed in 1829) which has risen to considerable importance.

At the age of thirty-two, in 1881, he joined the Birmingham & Midland as qualified accountant, and thus may be said to have assisted at the second birth of his bank. Equipped with novel ideas and the energy required to carry them through and to get his own way, sui generis in the acceptance and rejection of schemes, he rose step by step.[1] More and more the authority of the Committees of the Board waned, and more and more Holden, who was inclined to absolutism, arranged the management of the bank in accordance with his personal views. In an age which was not deficient in strongly-marked characters he stood in the very front rank in Lombard Street.

The first occasion on which his influence made itself felt was in 1883, during his third year with the bank: five years after its formation in 1878, the Union Bank of Birmingham found itself in difficulties; Holden came to the rescue, and the negotiations ended in amalgamation—the first step towards a more rapid progress had been taken. Expansion throughout the provinces, however, did not satisfy him; he felt irresistibly drawn towards London, the focus of events and of business, where the atmosphere favoured the carrying out of schemes on a grand scale. The opportunity came in 1891, through the fusion with the Central Bank of London (formed in 1863) which brought with it a seat in the Clearing House besides a few branches. Edward Holden had arrived, and with him his bank, whose management was transferred to the capital and which now called itself London & Midland Bank.

Now the real era of expansion began; the sphere of activities was extended by means of amalgamations, preference being given to joint-stock banks, which themselves had an extensive system of branches, and by the opening of its own branches, in connection with which economic considerations were not always the decisive factor; in 1914, for instance, when Lloyds absorbed the Wilts & Dorset

[1] 1881 appointment; 1883 secretary; 1887 sub-manager; 1891 joint general-manager; 1897 sole general-manager; 1898 managing director; 1908 chairman and managing director. In 1909 he became Sir Edward Holden, Bart.

Banking Company, Holden's belligerent character at once prepared to deal a counterblow, and within twenty-four hours the Midland had arranged to open seventeen branches in this country bank's own territory.

A sensation, and by no means the last, was caused when it became known that the City Bank (founded in 1855) was about to lose its independence; the bank was a power which the City did not like to see disappear, and the scheme aroused a considerable amount of dissatisfaction. Holden, however, was not the man to give in; he explained that he needed the City Bank because after the amalgamation of both balance sheets the reserve fund of the Midland would be equal to its paid up capital, and because its building was required for the necessary extension of his own premises. The merger took place in 1898, and again the name of the bank underwent a change, becoming this time London City & Midland.

The particularly close connection with the Import and Export Industry brought about a further great sensation when in 1905, remarkably late but yet as the first of the Big Five of to-day, Holden's Midland started transactions in foreign exchanges. This departure from every tradition caused a storm of indignation; that branch of business had hitherto been ungrudgingly left in the hands of the merchant and foreign bankers, but neither for long nor ungrudgingly did the other joint-stock banks leave it to the Midland alone. One after the other they followed in its train, and by the time all of them had organised Foreign Exchange Departments and had come to see how great a profit accrued from those transactions, the question arose, whether Holden had really been so very far-sighted, or whether the heads of the Midland had merely "builded better than they knew."

To this day the Midland has remained faithful to the principle laid down by Holden not to open any branches outside the United Kingdom, acting on the consideration that deposits made in England must in no event be exposed

to the risk of being used to comply with demands abroad. Another reason which induced the Bank to come to this decision was the fear of losing the foreign banks as customers if it entered into competition with them in their own country; the result of this self-denying ordinance is that the Midland has to-day a larger number of customers abroad than any other of the Big Five. On the other hand, the Midland was the first amongst English banks to go to Ireland when in 1917 it acquired the Belfast Banking Company; but because this bank had the right of issuing its own notes, it was decided to refrain from amalgamation.

The most important of the many principles Holden laid down in his addresses at general-meetings which, following the example of Felix Schuster, were always full of information and instruction was that banks should in their balance sheets plainly state the amount of their gold holdings; it would then no longer be the exclusive task of the Bank of England to see that there was adequate gold reserve, and he himself set a precedent, when in the Midland balance sheet of the 12th January 1915, an item "Gold coin £8,000,000" was included. When during the war it appeared that the gold could be more usefully employed if it were placed in the hands of the Government, it was generally admitted that Holden's action in at once putting it at the Treasury's disposal was worthy of the greatest praise, and he personally rendered most valuable services as a member of the Commission which, under the leadership of Lord Reading, went to America for the purpose of negotiating a loan.[1]

Just before the outbreak of the war the Midland had carried through another great amalgamation, with the Metropolitan Bank, an old-established concern which, founded in 1867, had itself absorbed 16 banks and brought a dowry of 156 branches and £16 millions of deposits.

[1] As to Sir Edward's further activities during the war see the chapter "Sir Felix Schuster," page 345.

Immediately after the Armistice centralisation made enormous strides all round, and 1918 is the year which really saw the birth of the Big Five; two of the most outstanding amalgamations were effected at that time—the fusion of Lloyds with the Capital & Counties and the merger into the Midland of the London Joint Stock Bank. The latter had been formed in 1836 and had followed a strong policy of concentration of its own; the absorption of this undertaking brought to the Midland an accretion of £58 millions in deposits and 308 branches, amongst them some important ones in Yorkshire where the London Joint-Stock Bank had in 1909 acquired the York City & County Bank with its 120 branches.

The new gigantic concern took the name of London Joint-Stock & Midland Bank, but not for long; in all the numerous changes of name the word "Midland" had remained the steady element in all the variations, and in 1923 this was retained as the sole name of the Bank.

In 1881, when Holden joined the Bank, the deposits entrusted to it were £2 millions; at his death in 1919 they had grown to £371 millions, and by 1936 they had further increased to £480 millions. In the struggle for big figures it had beaten all its rivals, and thanks to the amount of its assets (Barclays capital is greater) the Midland is the largest bank in Europe.[1]

For a few years (from 1906 to 1910) Holden, though not very actively, went in for politics as a Liberal. Imbued with the utmost, perhaps even an exaggerated, sense of caution, he was of the opinion that the prominent activities of a Member of Parliament did not accord very well with the

[1]

1936	Total Assets	Capital including Reserves in Million £	Net Profits
Midland	462·5	25·7	2·3
Lloyds	443·9	24·3	1·6
Barclays	413·4	26·1	1·7
Westminster	362·7	18·6	1·5
Nat. Provincial	321·6	17·4	1·6

responsibilities of a Bank Director to his institution; whichever view he favoured, there were sure to be opponents of it in the wide range of the bank's connections; he accordingly thought it wiser to make no further speeches in the House, and subsequently even saw dangers in voting, and therefore he refused to seek re-election.

Holden himself selected his successor, and that he should choose a former Cabinet Minister proved once more that he was a man of original ideas. Reginald McKenna, elected a director in 1917 and appointed Chairman in 1919, brought into the City a vast number of valuable assets—political education and training in rowing by Charles Dilke, prizes at Henley and Honours in Mathematics, and in addition financial experience as Financial Secretary to the Treasury and as Chancellor of the Exchequer. Owing to his reputation of having been a financial genius at Westminster, he was at the outset looked upon with a certain amount of suspicion in his new sphere of activities, but this disappeared, and he was accepted without reserve when he showed himself to be clear and orderly minded, not over captivating and not an innovator. As he had been suddenly raised to his high office, there was really no need for him to be either an organiser or a creator. His speeches at the general meetings of his bank are listened to with interest even by those who do not share the views which he expresses; he is much too cautious to accept prematurely any new ideas, and his assistants have to study a problem very thoroughly before he can be induced to give his own opinion. McKenna is influential and very highly paid, and it is in vain that Downing Street has tried to tempt him away from his bank parlour—since accepting the Chairmanship of the Midland he has consistently refused to put up for re-election, and in his case it definitely cannot be said that the City is "the home of lost careers."

WESTMINSTER BANK

LONDON & COUNTY BANKING COMPANY—PARR'S BANK —WALTER LEAF

As appears in the chapter bearing his name, John William Gilbart at last succeeded in 1841, after a hard struggle with prejudice and still darker powers, in securing that in the seventh year of its existence his London & Westminster Bank was able to open an account at the Bank of England. At first a purely metropolitan institution, it found further districts of the town available when it took over some of the banks which had got into difficulties, amongst them in 1856 Strahan, Paul & Co., which could look back upon a very ancient, at least two hundred year old history (as far back as 1660 it occupied an important position) and which during the last few years of its existence passed through some exciting times and met with a sudden end when the proprietors were found guilty of misappropriation of securities and were sentenced to various terms of penal servitude. The Westminster Bank's chief triumph came in 1863, when Jones, Loyd & Co. and its head, the great Lord Overstone, the most powerful and the bitterest enemy of the joint-stock banks, was compelled to capitulate, and the Westminster took over the most important of all private banks.

It took no part, however, in the active concentration movement of the last decades of the past century. By confining itself to the opening of new branches within the boundaries of London, it lost, in the first instance to Lloyds, its hitherto leading rank; so considerable was the change

in their relative standing that in 1909 Lloyds had £78 million, the Westminster only £27 at its disposal.

A bold move in that year brought an increase of £45 million of new deposits which the Westminster required to maintain its position in the front line, when it joined hands with the London & County Banking Company. Established in Southwark in 1836 as Surrey, Kent & Sussex Banking Co., it had by means of numerous fusions extended its activities to the Southern suburbs and the agricultural counties, and in its two hundred branches only four competed with those of the Westminster. Industrial relations, however, were entirely lacking, and, like many others in a similar predicament, it was compelled to seek a complementary connection to enable it to obtain some outlet for its deposits. Having regard to the importance of the institution now acquired, the name of the Westminster was changed to London County & Westminster Bank.

Totally different were the conditions ruling in the case of Parr's Bank; founded in 1865 in Warrington, a manufacturing town between Liverpool and Manchester, it had very strong connections with Industry, and accordingly a most lucrative employment for its money. Under the direction of John Dun, its general manager from 1865 to 1891 and subsequently a member of its Board, it extended its activities over a large part of the Midlands, and in 1891 obtained a footing in London through the acquisition of Fuller, Banbury & Co. who had been carrying on business since 1738 and in addition to a seat in the Clearing House possessed valuable connections. Parr's position in the City grew stronger still when in 1892 they took over the Alliance Bank (founded in 1862 and reconstructed in 1872) and in 1894 acquired Sir Samuel Scott Bart. & Co. whose partner, Lord Farquhar,[1] joined Parr's Board. The fusion in 1896 with the Consolidated Bank (established in 1863) and in 1909 with Stuckey's Banking

[1] Lord Farquhar, see page 404.

Company[1] with its seventy branches and £6 million of deposits brought a further accession of strength in the Midlands.

When in 1918 Parr's was merged in the Westminster, one of the biggest banks in Europe, and with one of the longest names—London County Westminster & Parr's Bank —had come into being; from 1923 on it has been satisfied with the shorter name of Westminster Bank.

In the year of the great amalgamation Walter Leaf, a member of the Board at the early age of seven and twenty, had become Chairman. After passing through Harrow and Cambridge he became in 1874 a partner in the wholesale house of Leaf, Sons & Co. (which dealt mainly in silks and ribbons and was in 1893 fused with Pawsons & Co. and still carries on business as Pawsons & Leafs) and in 1887 was one of the founders of the London Chamber of Commerce, so that he had vast interests and experience in commercial life when in 1891 he became a director of the Westminster.

Minor Scholar in 1869, Scholar in 1871, Fellow of Trinity College in 1875, President of the Hellenic Society, Leafs literary labours covered Homer, Achilles and Persian Prosody and he was an accomplished writer of verse both in English and Greek; in spite of the very different activities of a bank director, he remained a typical classical scholar his whole life long.

Leaf was elected Deputy Chairman of the Westminster Bank in 1909 and Chairman in 1918, but as far back as 1914 the main burden and final responsibility rested on his shoulders, as the Chairman, the second Viscount Goschen,[2] was during the war faced with different tasks.

[1] Vincent Stuckey of Langport was a partner in several banks which he amalgamated in 1826, and in this way formed one of the very earliest joint-stock banks; by 1832 it had as many as fourteen branches.

[2] George Joachim, Viscount Goschen, a son of the great Goschen, since 1902 on the Board of the London & County, became Chairman in 1909 when the latter was amalgamated with the Westminster; in 1917 he withdrew to the Board and remained a director till 1924. From that year till 1929 he held the post of Governor of Madras, and in 1929 acted for a time as Viceroy and Governor General of India. From 1929 on he has again been a member of the Board of the Westminster.

In an address to the Institute of Bankers (whose President he was from 1919 to 1921) Leaf pleaded that all those who during the period of the war had contributed to save the finances of the country from collapse, should put their reminiscences and experiences into writing for the purpose of enabling a History of Banking during the war to be compiled. But Leaf is dead, and many others who had much of value to say, have followed him. The work which he contemplated has not been attempted, and a great opportunity has been lost of a lasting achievement.

Far beyond the boundaries of England the speeches of this exceptionally gifted man during his chairmanship of the Westminster were read with respectful attention. He was opposed to any limitations on international trade, to any interference by the State with private initiative, and accordingly quite definitely against the project of the nationalisation of the banks which has again cropped up after the war. As orthodox economist he had little liking for modern theories, and the claim that banks *create* credit when they grant an overdraft he regarded as a popular fallacy. He strongly advocated amalgamation; "production must be on the largest possible scale," but, he added, "vitalised by rivalry and competition," and this the Westminster Bank quite definitely did not lack whilst he stood at its head.[1]

[1] Since 1931 Rupert E. Beckett has been the Chairman of the Westminster; he joined the Board in 1921, when the important house of Beckett & Co., Leeds (founded in 1774) was taken over.

LLOYDS BANK

SIR RICHARD VASSAR-SMITH, BART.—CAPITAL & COUNTIES BANK—SIR ROBERT HORNE

LLOYDS BANK is of relatively more recent date; two highly esteemed private firms in Birmingham, both with a century old tradition, Moilliet & Sons (1766) and Lloyds & Co. (Birmingham Old Bank, 1765) united in 1865 under the name of Lloyds Banking Company; they were shortly afterwards joined by a third, P. & H. Williams (Wednesbury Old Bank) which had been established in 1851. At the outset the founders toyed with no other ambition than to grow respected and important in their own immediate neighbourhood; Joseph Chamberlain, of Nettlefolds, screw manufacturers, Birmingham's great son (although born in London) gave his support to the local bank and was an original member of its Board from 1865 to 1877.

Right from the start strong leanings towards expansion appeared; at the end of twelve months Lloyds had thirteen, after barely twenty years (in 1884) fifty branches (and deposits amounting to £6½ million).

In London this development, which to some people seemed somewhat reckless, had been watched with a certain amount of suspicion, which grew when the management resolved on what was described as "a revolutionary move" and (in 1884) made its appearance in the City itself. Two high class private banks, both of which could look back upon a distinguished history, were acquired—Barnett, Hoare, Hanbury & Co.[1] and Bosanquet, Salt & Co.[2]—and the

[1] Barnett, Hoare, Hanbury & Co. were the result of a merger; Barnett, Hoare & Co., one of the oldest banking businesses in London (established about 1677) had in 1864 amalgamated with Hanbury & Co. (established in 1796).

[2] Bosanquet, Salt & Co. originally carried on business, probably from 1737 on, in Stafford, and had come to London in 1796.

head office was transferred to Lombard Street. The bank was now called Lloyds, Barnetts & Bosanquets; leading in this as is many other respects, they were the first who (in 1889) decided upon the short and manageable name of Lloyds.

In the busy life of the City the bank's innate daring grew still greater; ever spurring on to further efforts, it developed into the most active of the precursors of the Big Five. New districts were opened up in the West and the South; in London Praeds & Co., of Fleet Street (established in 1803) was acquired in 1891, in 1892 Twining & Co., very old-established, who had in 1824 added banking to the tea business which they carry on to this day at their original premises, and in 1893 Herries, Farquhar & Co., the bank which owed its existence to a remarkable instance of shortsightedness[1] not often met with in a man of the eminence of Thomas Coutts. In its original territory, the Midlands, Lloyds' position was continually strengthened by further amalgamations.

The acquisition in 1889 of the Worcester City & County Bank (founded in 1840) brought Richard Vassar-Smith to the Board. At the age of seven-and-twenty (in 1870) at the head of his father's agent and carrier business to the Great Western and, popular in all circles, he was a power in his county by the time he began more and more to transfer the sphere of his activities to the City. Ever approachable and generous, with a sound judgment and the right admixture of caution and venturesomeness, he contributed in a considerable degree to raise Lloyds Bank, whose Chairman he became in 1910 and remained down to his death twelve years later, to its predominant position. Within the limits of his profession he has held a number of honorary offices (Clearing House, Institute) and played a leading part in the winding up of the German Banks after 1914; Vassar-Smith grew to be a banker of European fame whose

[1] See page 405.

services to the common weal were in 1917 rewarded by a Baronetcy.

Lloyds Bank's strong policy of expansion of the 'nineties again raised considerable doubts as to its ultimate outcome, but once more there was nothing to which expert or serious criticism could object. The balance sheet figures kept growing; in 1900 the deposits reached the sum of £51 million, and placed Lloyds—which to-day occupies the third place[1]—in the leading position. In the new century various fusions brought an enormous increase, as for instance the acquisition in 1905 of the Cornwall Banking Co. with its 100, in 1914 of the Wilts & Dorset Banking Co. (founded in 1836) with more than 150 branches; the Midland, however, and its Edward Holden were not inclined to let themselves again be overtaken in the race for the biggest figures.

Lloyds was in 1910 the first to organise a Trustee & Executor Department, and also led the way when it extended its operations to the Continent[2] and in 1918 even to Scotland.[3] In each of these three branches of business the competitors very soon followed its example.

Sir Richard Vassar-Smith's greatest fusion came about in 1918, when he took over the Capital & Counties Bank, itself the result of 26 amalgamations and a very titan, with deposits amounting to £58,646,000. It had its origin in the Hampshire Banking Company established in 1834 in Southampton, very soon participated in the movement towards concentration, and in 1877 joined hands with the North Wilts Banking Co. (founded in 1873) under the style of Hampshire & North Wilts Banking Co. A year later the new bank took over the business of the very old

[1] Deposits in 1936: Midland, £479,767,000; Barclays, £417,887,000; Lloyds, £406,057,000.

[2] Armstrong & Co., a Paris Private Bank of English origin, was acquired in 1919 and transformed into Lloyds Bank (France) which in 1917 was merged in the Lloyds & National Provincial Foreign Bank, formed in conjunction with the National Provincial Bank.

[3] See page 406.

established private firm of Willis, Percival & Co. (formed in 1677) which had got into difficulties, and under the name of Capital & Counties Bank transferred its head office to London. It brought with it one of the most respected names, an important business extending over the whole of England, and 473 branches, amongst them 260 in localities where up to that time Lloyds had not been represented.

Amongst later amalgamations the fusion carried through in 1921 with Fox, Fowler & Co. (Wellington Somerset Bank, 1787) is of interest; this was the last of the private note issuing Banks in England, and it was not until its quota of £6,256,000 had passed to the Bank of England that the latter had the complete monopoly.

The opinions of so strong and marked a personality as that of Sir Robert Horne are bound to carry considerable weight with any Board of which he is a member. This son of the manse, who is no scholar-politician and no business-politician, but is a politician, a business man and a scholar (M.A., LL.B., LL.D.), has had a brilliant career which began at the university of Aberdeen. There he remained as examiner down to 1900 (and returned from 1921 to 1924 as Lord Rector), but as far back as 1896 he had been called to the Scottish Bar where he made a great deal of money. It was not till he had attained the age of forty-six (in 1918) that after one failure he entered the House of Commons, where the new-comer in the shortest possible time rose to one high office after another; in 1919 he became Minister of Labour, in 1920 President of the Board of Trade, and during the most difficult post-war period (1921 to 1922) he was a highly successful Chancellor of the Exchequer, the immediate predecessor in this post of Stanley Baldwin, whose serious rival he was at one time considered to be.

When Lloyd George's Coalition Government fell in 1922, Horne left Westminster. The City offered ample scope for the highly trained intelligence of a man who is as far removed from the traditional mould as from the

eagerness of an impetuous innovator. Horne, since 1920 Sir Robert, is sound, shrewd and energetic, and the gift of vision is welcomed in Lombard Street only when it is a product of the City itself and not when it is imported from other parts.

The claim, deriving from Auguste Comte, that in a well-governed community all political power should be wielded by bankers, has been propounded anew by Horne. Pointed as the statement may seem, the present writer cannot refrain from remarking in passing that, apart from all other advantages, the taxpayer would come off more lightly under Lombard Street than under Whitehall, even if the wielding of this political power were combined with a very high rate of commission. No one has better information at his disposal than the head of a great bank. It is here that the visible and the invisible threads which cover the whole of the world, are gathered together. The diplomat, especially in oversea countries, learns what is really happening in the country to which he is accredited only through the great, mostly English, business houses, and they have passed on the fullest details to their London correspondents long before anything reaches the ear of Downing Street. Accordingly, as the most expensive mistakes have always been due to the lack of information or to misinformation, it can well be imagined that, if Sir Robert's claim were given effect to, the country would be governed not only more cheaply, but also better.

As spokesman of finance and industry Horne is always to the point as well as most interesting, and was plain-spoken only when dealing with labour intellectuals and with the Ramsay MacDonald of former years.

From time to time he makes one wonder whether after all the Elder statesman has not got some ambitions left. His speech of the 21st April, 1937, in which he described profits as a good and necessary thing for industry, and which was a clear and well considered analysis of Neville Chamberlain's unclear and insufficiently considered Budget,

once more gave rise to the thought whether he might not after all have the intention of one day returning to Downing Street; only a very high Government office, however, could tempt him. A decade and a half in the City—he is at present on the Board not only of Lloyds Bank but also of the Commercial Union Assurance, the Suez Canal Co., the P. & O. Steam Navigation Co., the British India Steam Navigation Co. and the Union Corporation, in addition to being Chairman of the Zinc Corporation, the Imperial Smelting Co., the Burma Corporation and above all, since 1934, of the Great Western Railway—have made him a wealthy man, and he is therefore considered to be satisfied with things as they are.[1] But this may be an error; Sir Robert is a Scotsman, and a bachelor.

[1] In May, 1937 (Coronation) Sir Robert has accepted a Peerage and is now Viscount Horne of Llamannan.

BARCLAYS BANK

FREDERICK CRAWFURD GOODENOUGH

BARCLAYS BANK is by far the youngest of the five sisters; but if we trace the origins of its separate members, we find that, both from the historical and the genealogical point of view, their interesting story is the story of Lombard Street and of English banking in general. It is impossible, however, within the narrow limits of this book to go into details; we must confine ourselves to stating that the Barclays came from Scotland, that they can trace their pedigree back to Saxon times, were originally cloth merchants, and that their banking business was founded in 1694. After thirteen changes of name they were known in 1896 as Barclay, Bevan, Tritton, Ransom, Bouverie & Co.

As London agents for a considerable number of country banks, they took the initiative in effecting a vast, far-reaching combination, in which they were mainly influenced by sound and expert considerations, for they saw that at a time of the most intensive concentration, affection for a tradition however ancient and the sentimental desire to carry it on would have to fall into the background. Long standing and close family connections, which had been further strengthened in every generation by intermarriages, increased the existing mutual confidence, and facilitated the negotiations; the fact that the Backhouses, the Bevans, the Trittons, the Bouveries, the Buxtons, the Gurneys and the Barclays themselves all belonged to the Society of Friends was an additional firm tie. So under the best possible auspices the merger between the country cousins was brought

forward in the first half of the 'nineties, and Barclay & Co. Ltd., as they called themselves at the start, had arisen.

Twenty private banks, driven by no crisis or other outward impetus, after full consideration and in accordance with a well-thought out plan in 1896 combined into one whole:

Gurneys, Birkbeck, Barclay & Buxton (1792), Norwich;
Gurneys, Birkbeck, Barclay & Buxton (1792), King's Lynn;
Gurneys, Birkbeck, Barclay & Buxton (1782), Wisbech;
Gurneys, Birkbeck, Barclay, Buxton & Cresswill (1782), King's Lynn;
Gurneys, Birkbeck, Barclay, Buxton & Orde (1781), Halesworth;
Gurneys, Birkbeck, Barclay, Buxton & Orde (1781), Great Yarmouth;
Gurneys, Alexanders, Birkbeck, Barclay, Buxton & Kerrison (1744), Ipswich;
Gurneys, Round, Green & Co. (1774), Colchester;
Jonathan Backhouse & Co. (1774), Darlington;
Sparrow, Tufnell & Co. (1801), Chelmsford and Braintill;
Basset, Sons & Harris (1812), Leighton Buzzard;
Sharples, Tuke, Lucas & Seebohm (1827), Hitchin;
Gibson, Tuke[1] & Gibson (1824), Saffron Walden;
Fordham, Gibson & Co. (1808), Royston;
J. Mortlock & Co. (1790), Cambridge and Bishop's Stortford;
Veasey, Desborough, Bevan, Tillard & Co. (1804), Huntingdon;
Molineux, Whitfield & Co. (1789), Lewes;
Woodall, Hebden & Co. (1788), Scarborough;

and in addition to these the London Bank, the oldest of them all

[1] William Favill Tuke, a partner in this bank since 1891, joined Barclays on the fusion; he became general manager in 1916, director in 1920, and in 1934 succeeded F. C. Goodenough (see p. 367) as chairman. His son Anthony William Tuke, who together with P. W. Matthews wrote a history of Barclays Bank in 1926, is at present a general manager.

Gosling & Sharpe (1650),[1]
and the leader of the amalgamation,
Barclay, Bevan, Tritton, Ransom, Bouverie & Co. (1694),
which absorbed them all.

As all these were important concerns, and each one brought a large amount of business into the merger,[2] the youthful joint-stock bank differed from the rest of the Big Five in that from the moment of its formation it stepped into the front rank of English banks.

The welding into one organic and excellently functioning whole of twenty separate concerns must be placed to the credit of Francis Augustus Bevan, the moving spirit behind the amalgamation, and subsequently the first Chairman of the new joint-stock bank. He was succeeded in 1917 by Goodenough.

Frederick Crawfurd Goodenough came from a family which had given many excellent servants to Church and State. Originally trained for the Law, he was for a time private secretary to Sir Felix Schuster at the Union of London. Although the collaboration between the man who was already eminent and the keen young banker has left no very deep traces, it was of importance in Goodenough's further development: since those days he followed Schuster's example and joined the ranks of the author-bankers. At the age of thirty he was in 1896 appointed secretary by the new Barclay combine, and was quick to see the great chances which such an appointment in a novel concern offered to an ambitious and hard-working young man. Now he had entered upon his great

[1] Originally manufacturers of gold lace, the firm, in which the name of Gosling appears for the first time in 1674, was founded in 1650. Its premises were in Fleet Street, midway between Child & Co. and Ch. Hoare & Co. A curious fact is that at the time of the amalgamation the name of Gosling & Sharpe had undergone no change for a hundred years (since 1796).

[2] The first balance-sheet showed a paid up capital of £2,000,000, which has meanwhile been increased to £15,858,217, so that as regards capital strength Barclays to-day occupies the first place. At the outset the deposits stood at the respectable figure of more than £26 million (in 1936 nearly £418 million compared with the Midland's nearly £480 million) to which Barclays had contributed £8,600,000, the eight Norfolk Gurneys (as to which see further details in the chapter Overend Gurney & Co.) £6,900,000 and the Backhouses £3,000,000.

and rapid career; as early as seven years later he was general manager, in 1913 a director, and from 1917 to 1934 Chairman of Barclays Bank.

Goodenough's distinguishing qualities were his pronounced perspicacity and his ability to grasp things as a whole. To him, born in Calcutta, it seemed that only those matters could be of advantage to the bank which were also good for the country and the Empire. He was a strong advocate of progress, but only if it was achieved by slow and prudent methods.

The next step of Barclays Bank after the amalgamation and consolidation was bound to be the advance into districts where none of the absorbed banks had had any relations, and various mergers in Yorkshire, Lincolnshire and Cornwall gave the desired geographical rounding off.

The first fusion on a grand scale did not take place until 1915; the United Counties Bank, a powerful concern which, founded in 1836 as Birmingham Town & District Banking Company, had begun in 1874 to carry out affiliations of other neighbouring banks and now it brought Barclays £17 millions in deposits, and, through its important connections in Birmingham and Bradford, valuable extensions in the Midlands.

As hitherto Barclays had not been represented in the suburbs of London, it gained additional strength there through the merger in 1918 with the London Provincial & South Western Bank which in that year of combinations had itself a few months previously emerged from the amalgamation between the London & South Western Bank (1862) and the London & Provincial Bank (1864); it brought at one stroke 550 new branches, 250 of which were situated in and around London, and £74 millions in deposits.

After the war also the purchase of private banks—in 1919 Gillett & Co. (of 1784), Banbury & Oxford, and in 1920 Tubb & Co. (of 1793)—and mergers on the most extensive scale went on. As the customers of the Union

Bank of Manchester (founded in 1836) with its 172 branches, did not like the idea of doing business with a bank which was dependent on London, it was allowed to maintain a nominal independence, and the same method was followed in the case of the British Linen Bank, affiliated in the same year, as it had the right to issue notes. The latter, a very old concern, had been incorporated by charter in 1746 as British Linen Company, to manufacture and deal in linen and "to do everything that may induce to the promoting and carrying on the said linen manufacture." In pursuance of this object it even continued (down to 1754) to give a bounty on home made linen. From 1763 on, however, they gradually withdrew from trading, and confined themselves to general banking; since then the British Linen Bank has become one of the greatest of Scottish banks, of which there are to-day but eight left.[1]

For a time Barclays was looked upon as the bank which in the main met the requirements of agriculture and fisheries, as the Midland Bank was chiefly interested in industry and the Westminster in the City. These, and other special characteristics and variations between the Big Five have, however, long ago been softened down, and have eventually almost entirely disappeared, and, much as it may be regretted from every point of view, a universal type of bank has gradually been evolved.

[1] See page 406.

THE BIG FIVE

EVOLUTION IN CONJUNCTION WITH CONSERVATISM, STABILITY AND SECURITY

THE history of the money powers in the last hundred years is the story of their increase in size and their decrease in numbers, and is the story of the overwhelming victory of the joint-stock banks over the private banks proper. In 1842 there were 27 members of the Clearing House, all of them private banks, in 1937 there was a total of 11, of which only two remain private banks, and one of these—Coutts & Co.—belongs to the National Provincial Bank, so that its independence is purely nominal. One and one only survives—Glyn, Mills & Co.; in addition there is Charles Hoare & Co. (who are outside the Clearing House), and these two are the last remaining pillars of English,[1] not merely of London, private bankers.

The inner development which led to some hundreds of independent units, private banks plus joint-stock banks, being reduced to a round dozen of enormous money powers, five of which are on a gigantic scale, and which practically control the whole of the available loan capital of the nation, has been shortly as follows:—

Originally, especially in the rural districts, the question with whom to bank was a matter of personal and mutual confidence, and the undivided and unlimited responsibility received its strongest expression in the partnership; every

[1] Exactly a hundred years ago, in 1837, there were in England 351 private banks (as against 465 in 1827) and 107 joint-stock banks (as against 6 in 1827 and none in 1826). In the fifteen years between 1827 and 1842 as many as 132 amalgamations took place; in the latter year there were only 311 private banks but 118 joint-stock banks. See Appendix page 407.

partner guaranteed with his name and with the entirety of his fortune the deposits entrusted to his bank.

There is no doubt whatever that they were vulnerable. A set back in industry might hit some of them, a bad harvest others, for the district in which each operated was small and narrow—the possibility of a set-off, an asset of big concerns which cannot be rated too highly, was missing. The more a bank extended its activities over the whole country, over industrial, agricultural and manufacturing neighbourhoods, the more varied was the manner in which deposits could be invested, and it is this variety which provides the best safeguard for the depositor.

The greatest temptation which faced the private banks in so far as they were country banks, was their abuse of the right of issuing notes; in the exercise of this easiest of all methods of procuring money they often forgot that banknotes have the exceedingly awkward quality of carrying an invisible return-ticket, and have the bad habit of returning to their starting point when they are least wanted. Another danger was the granting of too large a credit to individual customers; the smaller undertaking—and smaller joint-stock banks suffer in this connection from the same weakness as the private banker—must, the very instant there is the slightest risk of a falling off, at once take steps for its own safeguard, must threaten drastic methods, and, in given circumstances, even apply them too hurriedly. The strong lender is in a position to bide his time; he intervenes not when he must but when he sees fit—not until he considers that the most favourable moment has arrived. In this way the customer is saved, and he himself suffers no loss.

The big concern is strong enough to lay down rules which must in no circumstances be broken; he is able to say the frequently very painful and difficult "no," the "thus far and no farther" which the smaller undertaking, deeply committed as it is, dares not utter, for if the client goes

down, it will itself perhaps share in his ruin. The small man hesitates, the big man is deliberate.

The great banking concern was bound to come in an age in which everywhere organisation was taking the place of individuality, and when two factors were in the main decisive:—

the machine, which eliminated the personality of the worker and made possible the greatest concentration of mechanical power, and

the joint-stock company, which eliminated the personality of the employer, and made possible the greatest concentration of capitalist power[1]; it has characteristics which go far beyond those of a partnership: it is (unless, indeed, it meets with a violent end) immortal, for its existence is not bound up with the existence of the owners of the business.

But the joint-stock bank itself, even after it had set out on the road to concentration, was, as economic development progressed, no longer in a position properly to carry out its task. The financing of large scale production and of large scale distribution, and the requirements of modern world-embracing commerce made large scale banks in all countries, more especially in England, in America and Germany, an absolute necessity.

Once more it was the Provinces which gave the lead; just as it had been the country banks which carried through the idea of joint-stock banks, so it was from them that the impulse towards concentration came; "it is the country bank that absorbed the London bank" (Sir Felix Schuster in 1919).

The first phase came when private bank joined forces with private bank; as soon as a neighbour began to lose strength, the stronger concern gladly took him over; in addition to the desire to widen the circle of its own interest,

[1] The aggregate number of companies registered in England alone has risen from 704 in 1863 to 138,969 in 1935, and their total paid up capital in 1936 (excluding debentures) was £5693,000,000 (including 124,143 private companies with £1730,000,000 capital).

it was often influenced by the consideration that in the end it would be cheaper to have perhaps paid a little too much for the goodwill of a no longer quite sound business than later on to have to face a suspension of payment in the neighbourhood.

The next type of fusion was the absorption of the (old) private bank by the (new) joint-stock bank. Much energy and much time were saved in England thanks to a rapid adaptation to the new requirements, and the development proceeded much more quickly than in other countries where joint-stock bank fought against private bank and metropolitan bank against local bank. Instead of engaging in an exhausting and at the same time hopeless struggle, the bankers placed their organisation and their clientèle at the disposal of the new concern in return for an adequate compensation.

The combination of joint-stock banks amongst themselves, the next step on the road to concentration, gradually resulted in the evolution of enormous concerns[1] such as the Capital & Counties which became merged in Lloyds, the London Joint Stock Bank absorbed by the Midland, the Union of London & Smiths Bank which was taken in by the National Provincial, and the London & County Banking Co. and Parr's Bank which both were amalgamated with the Westminster. Towards the end of the century these amalgamations took on a somewhat wholesale character, they ultimately became a sort of race, and in their anxiety to "bring banking to the doors of every inhabitant of this island" a tendency sprang up, actuated not exclusively by economic necessity, which ended in every bank hanging out its shield in every town, every suburb, and eventually in every main street and village all over the country.

It must not be overlooked, however, that in this perhaps exaggerated ubiquity the nation was being financially educated; the "stockings in the rafters" disappeared, and

[1] The London & South Western Bank which was absorbed by Barclays, must also be included amongst these pre-Big Five, although it had expanded solely through the opening of branches and not through the absorption of other banks.

to be able to handle a cheque is to-day no longer the preserve of a particular class.[1]

The last phase (perhaps it is the last only for the time being) dawned in 1918. During the war, a period of running into debt on a large scale, banking received an enormous impetus; with peace came the development of the mammoth banks, the Big Five, which control more than 9,891 out of the 12,200[2] bank offices in England, Wales and Scotland. A hundred years ago, in 1837, the 14 million inhabitants of England and Wales had 458 banks (see note page 370) plus say 800 branches of joint-stock banks, a total of roughly 1,260 bank offices, at their disposal, whilst to-day, in 1937, 12,200 serve the 45 million inhabitants of England, Wales and Scotland. In 1837, therefore, there was one bank office to every 11,000 inhabitants, in 1937 one to every 3,688.

The Big Five became the ideal suction and distribution apparatus of liquid capital; the deficit in one place was made up by the surplus of another, and the accumulation of vast sums in one place—in London—reduced the rate of interest, and consequently cheapened production throughout the whole country. Only very big institutions are in a position to satisfy at once a suddenly arising demand for credit which, if not met, might in given circumstances place a great industry in difficulties and put its employees out of work. The financial backbone of the country lies in the deposits entrusted to the Big Five, and the men who have these sums at their disposal have become the wielders of the money power of England.

The other side of the medal—one of the other sides—lies in the fact that London's world position as financial centre depended on having available for the bill market a

[1] Much has become democratised in the course of the nineteenth century, including the departments of finance, wealth and speculation. Instead of the former large fortunes in the hands of the few we now have smaller ones in the hands of the many. As regards speculation the small man is now in a position to take his part; round about 1825 the £100 share was the standard, by 1850 it was the ten pounder. The South African boom in 1895 popularised the £1 share, the Rubber Boom of 1910 gave us the 2s. share, and by the time of the Industrial Boom of 1928 the 1s. share had arrived.

[2] See Appendix page 409.

large number of banks as suppliers of money, and it was of not much importance if one or the other of them, for some reason or other, dropped out altogether. To-day the number of discounters has shrunk to a minimum. The reservoirs have become greater,[1] but their regulation lies in fewer hands. Further, every reduced competition involves great drawbacks, and there is—at least theoretically—the danger of a monopoly.

As far back as the second half of last century a change had begun in the construction of banking; formerly bankers kept their customers' money, later on they also collected their income (the interest on their bonds and debentures and the dividends on their shares). Great as the change had been during the nineteenth century, it became even greater in ours; round about 1900 banking bore more resemblance to what it had been in 1830 than to what it had become in 1930. Many of the conservative views and much of the rigidity has disappeared; transactions which were thoroughly objectionable are now a matter of course (such as the banks in Paris, Amsterdam and Berlin had been carrying out for very many years, but which the City generation of 1900 would not have dreamt of entertaining), have become great and regular sources of revenue. The English banks have become more continental.

At the same time they have retained their distinguished character. It is ever dangerous to generalise, but it is safe to say that it has never been their policy to treat their customers—both those with credit and those with debit balances—badly in order to pay too high a dividend; nor has it been their habit in evil days to refuse to customers asking for assistance the support which shortly before, in days of cheap money, they had forced on them. Many sins have been committed in this respect in various countries, and in this

[1] The progress of the joint-stock banks of Great Britain over the past 50 years:

	deposits	capital and reserves
1890–1	£461 millions	£82,581,000
1910–1	827 ,,	98,505,000
1935–6	2,481 ,,	169,135,000

mode of action lay one of the manifold causes which in the period following the war caused the collapse of banks and of whole banking systems; those in England remained "stable, firm and sound through every shock and every difficulty".

The claim of the great William Gilbart that "it is not sufficient that a banker be safe: it is also necessary that he should be believed to be safe" has been completely complied with, and in the face of the present gigantic figures the requisite "instinctive confidence" is actually present. Over sixty years ago, when still a large number of independent banks were spread over the country, Walter Bagehot expressed the view that "the ruin of one of the great banks would greatly impair the credit of all." To-day the sentence would have to be differently phrased. The crisis in Germany has most clearly demonstrated, what the well informed knew long ago, that in this "very peculiar business" "the least blast of suspicion means failure." In the modern concentrated system of banking, if the assets of even one of them were not sufficiently liquid, and if that condition were not at once and noiselessly remedied, the insolvency of them all would inevitably follow.

These considerations supply an answer to the so often discussed questions whether joint-stock banks are less liable to runs, if they really posses greater security, which is the most important consideration for a bank, than a private concern, and also whether "the prudence, the united knowledge and wisdom of a number of individuals must be greater than that of two or three individuals," for no Government, to whatever Party it might belong, would dare not to intervene the moment there was the slightest shadow of a shade of suspicion.

This is one reason why the security of the depositors has never been greater than it is to-day.

THE MERCHANT BANKERS OF LONDON

THE business of an English banker proper consists solely of paying out again when he is asked for it, the money placed in his care. He is responsible for the *amount*; whilst, however, the money is in his hands, it is, to all intents and purposes, *his* money—he can do with it as he pleases. The banker is neither an agent nor a factor—he is a debtor, and hence he seeks the confidence of those who entrust him with their money, the depositors; the merchant banker, on the other hand, looks to the investors.

Dealings on the Stock Exchange, the business of promotions and issues, are entirely outside the scope of a "bank," as this entails the locking up of its funds for long terms, and consequently might endanger the liquidity of its assets, and at the same time the safety of obligations which may have to be met at any moment. These branches of finance lie within the field of the "general purposes" bankers, who called themselves merchant bankers, acceptance houses (formerly a class by itself), and also foreign bankers[1] (as Samuel Montagu & Co. do to this day)—differentiations which, however, have become much blurred; at the present time the descriptions are practically interchangeable, merchant bankers being the most usual.

Whilst in the case of the deposit banks the task of their comparatively small capital is merely to guarantee their

[1] Originally the term "foreign bankers" was intended to draw attention to the peculiar fact that they also transacted foreign business; to-day, however, there is hardly a single bank, deposit or merchant, which does not go in for it. The meaning underlying the definition has changed, and what is now understood by "foreign banks" are banking institutions whose head offices are domiciled abroad and which maintain branches in England, as used to be done by the German banks in the past, and as is done to-day by (e.g.) the Crédit Lyonnais, the Banca Commerciale Italiana, the Bank of Spain and many others.

Colonial Banks, a sub-division whose field of activity is sufficiently indicated by its name, have their head offices either in London or in the Colonies.

current business, the merchant bankers have a relatively larger working capital of their own at their disposal to enable them to carry through deals involving a longer locking up of their funds. In the course of the development it came about that their business became less and less mercantile, whilst becoming more and more financial, and there arose the (banker-) financier of whom Drummond Wolff gave the very pointed definition: "the mortgage represents caution, the speculator boldness and the financier a mixture of both qualities." In proportion to the risk which he incurs (in so far as he has not been able to pass it on to his clients) he must make large profits. The modern merchant banker of our days has long ago ceased to confine himself to negotiating fixed interest bearing loans for countries which he thinks worthy of credit (or which have become indebted to him); he also invites subscriptions for shares which depend for their yield on the state of the market (and on other circumstances).

The merchant bankers, originally merchants dealing with foreign countries (the Rothschilds, the Barings, the Lazards and others to this day call themselves merely merchants) and almost without exception coming from abroad, have developed along the same lines as the banker proper: at the outset they merely attended to affairs of their own, then they took up financing the transactions of their friends, and clients. Until about the middle of the last century their main activity consisted of the issue of foreign loans, that is to say, they lent money on long term. When after the Crimean War London came more and more to be the world centre of the money markets, greater and greater amounts became available also to the short term money market for employment in countries abroad which, like England, had gone through an industrial evolution and were now worthy to have credits granted to them. The acceptance credit—by means of his "acceptance" the merchant banker lends his credit to importers "less able to

bear the scrutiny of the market"—came to an even greater extent into evidence as a form of (short term) capital export.

When appearing before a Commission in 1833, Timothy Wiggin (of Timothy Wiggin & Co., American merchants) stated his profession as that of a Foreign Banker. He was asked to explain himself more fully; it was his business he said, "to accept bills drawn abroad" and to receive "bills from various parts of the world to meet payment of them"; this was and is to this day a clear and sufficient description of an acceptance house, a merchant banker. Those bills accepted, when endorsed by great London houses (deposit banks or special discount houses such as the National or Union Discount Company, q.v.) became first class bank bills and were discounted up to any amount; when the war broke out in 1914, £350 million of such bills were in circulation.

The third branch of business of the merchant bankers, after the management of foreign loans and the granting of acceptance credit, is the foreign exchange business. Formerly this was exclusively their field, but by a curious concatenation of events it passed (as has been described in the chapter "Abroad") to a considerable extent first into the hands of the London branches of the foreign banks who in their turn from 1905 on lost it to the great English banks, the Midland at their head. In the last few years, since acceptance business has become extremely small, the foreign exchange business is again being carried on an increasing degree by the merchant bankers.

A short sketch of the more important of the merchant bankers, who made a name for themselves by carrying out a novel and extensive business, opened up new fields to the money market or the stock market, or who owing to their long existence have found a place in the history of finance, seems to be called for within the scope of this volume; it has been compiled with the greatest reserve and the utmost caution—a caution which even exceeds that which

met the author while he was collecting for this chapter material which is preserved in no records.

In spite of this limitation the compilation[1] will give a general idea, which must, however, be accepted with the same reserve with which it has been written.

The House of Rothschild, the most important and most international of all private bankers of the nineteenth century known in London as N. M. ROTHSCHILD & SONS (merchants) —has been more or less extensively dealt with in the most varied parts of this book; with the exception of the section relating to the dissolution of the original house in Frankfort ("The End of a Great Tradition") nothing more is said about them, as many publications of recent date are available. As regards BARING BROTHERS & CO. LTD. (merchants), the earlier chapters of this book, especially those called "The Rise of the Barings" and "The Baring Crisis" should be referred to. STERN BROTHERS (merchant bankers), SPEYER BROTHERS, who were dissolved in 1922, ERLANGERS LTD. (bankers) and SELIGMAN BROTHERS (merchant bankers) are described in connection with the history of their origins in the article on "Frankfort." The once great BISCHOFFSHEIM & GOLDSCHMIDT have been accorded a separate chapter. Under the heading "George Joachim Goschen" will be found an account of FRUEHLING & GOSCHEN, at present Goschens & Cunliffe (merchants), and under "Sir Ernest Cassel" something is said about S. JAPHET & Co.

John Henry Schroeder (created a Prussian Baron in 1868) started his firm of J. HENRY SCHROEDER & Co. (merchant bankers) in 1804, and for about a century they were "the" acceptance house. Their greatest success was due to their

[1] Where the name of a firm is followed in brackets by the special description of merchant, foreign banker or other, this is done in accordance with the entry in the Bankers' Almanac.—So as to show clearly that the order in which the respective banks are dealt with is in no way a "guide to relative precedence," one of the undoubtedly greatest amongst the merchant banks has been left to the last.

Hamburg relations with Central and South America; especially great attention was paid to the connection with Peru, a country which was introduced to English finance by Thomson, Bonar & Co. In the United States they are separately represented by the J. Henry Schroeder Banking Corporation of New York. At all times they devoted themselves largely to German business, and this led to the bank losing much of its importance during the war. The present head, Baron Bruno von Schroeder, however, showed great initiative, and the house recovered its old standing and success.

C. J. Hambro & Son, since 1912 HAMBROS BANK LTD., came from Copenhagen to London about the middle of the century; they specialised in financial transactions with the Scandinavian countries and Greece, negotiated an important loan for Italy in 1851 (see page 171) and have gradually developed into bankers in the widest sense of the word.

Ten years later (in 1858) followed B. W. BLYDENSTEIN & Co. (bankers) who have important relations with the Netherlands and the Dutch Colonies.

From Lyons, where they had been in existence since 1750, came A. RUFFER & SONS in 1872 (turned into a limited Company in 1923) and brought with them considerable connections with Spain and Switzerland.

By a very circuitous route, via Spain (Toledo, where the family lived from the twelfth to the fifteenth century), Persia (Bagdad, whither they emigrated in the sixteenth century) and India (Bombay) the Sassoons came to England in the middle of last century. David Sassoon founded in 1832 the mercantile and banking firm of DAVID SASSOON & Co. which spread from Bombay over China and Japan and grew so great in the Far East that in some classes of merchandise it almost had a monopoly. The head office was transferred to London in 1860; in 1901 they incorporated themselves as a limited Company which was joined in 1930 by the E. D. Sassoon Banking Co. Ltd. Heirs seldom attain

the importance of their fathers, but the Sassoons, of great munificence in all generations—they are called the Indian Rothschilds and are much intermarried with that family—have shown that it is possible for inherited wealth to be preserved with care and even increased.

In 1792 Cuba saw the foundation of KLEINWORT, SONS & CO. (merchant bankers), who came to London in 1830; their dealings with the Continent and with South America are of considerable extent. Practically the same class of business is carried on by WM. BRANDT'S SONS & CO. (merchant bankers) who started in about 1805, and by ARBUTHNOT, LATHAM & CO. (founded in 1833, turned into a limited Company in 1921) who finance transactions with India, East Africa and Costa Rica (coffee), and also in other parts of the world. FREDK. HUTH & CO., formed in 1809, were in 1936 merged in the British Overseas Bank.

R. RAPHAEL & SONS (merchant bankers, established in 1787) originally gold and silver refiners, to-day carry on arbitrage business on an extensive scale. Very early they turned their attention to the issuing of foreign securities, and for a time they figured largely in Hungarian and other loans. From the acceptance business they gradually withdrew and at present at any rate their signature is found only on the bills of very big people indeed.

SAMUEL MONTAGU & CO. (foreign bankers and bullion dealers) have been in existence since 1853. Samuel Montagu, created Lord Swaythling in 1907, one of the most farsighted and hence most successful of bankers of the last third of the century, originally carried on bullion dealing only and may be said to have discovered the trade in silver with the Far East, especially with India. General banking business, on strictly conservative lines, was not added till later.[1]

Among the bankers whose business extended to America one of the earliest was BROWN SHIPLEY & CO., established

[1] Edwin Samuel Montagu, Lord Swaythling's second son, was Secretary of State for India at the time of the Viceroyalty of Lord Chelmsford (1917–1922). A bill embodying the proposals of the "Montagu-Chelmsford Joint Report" (Montford Report) became law in 1919.

in 1810, who were originally settled in Liverpool. One of their partners was Montagu Collet Norman, who in 1907 became a director of the Bank of England and has since 1920[1] been its Governor.

Like Brown Shipley & Co., MORGAN GRENFELL & Co. (Limited since 1934) can also look back upon an eventful history. Under the name of George Peabody & Co., they came into existence in London in 1838, at a time when many Englishmen were likewise settling in New York, Chicago, and elsewhere in America; they passed through a severe crisis in 1857, and adopted in 1864 the name of their great New York backers and partners and called themselves J. S. Morgan & Co., which was in 1910 changed to its present designation. George Peabody, an American by birth, whose family came originally from St. Albans in Hertfordshire, was very simple and unaffected, though, it is said, somewhat too fond of boasting of his early poverty. Always convinced of the success of the Northern States, he bought Government and Railway Bonds[2] all through the Civil War which had fallen to an amazingly low price, and when peace was concluded, Peabody had greatly increased his already huge fortune. Of his vast wealth he made the best possible use; when in 1851 the United States could not see their way to participate in the Great Exhibition in London, he himself found the money required for an American section. In order to improve the dwellings of the working classes he founded in 1866 the Peabody Donation Fund which received a Royal Charter in 1900 and to-day has assets exceeding two millions sterling. Queen Victoria wished to recognize Peabody's magnificent liberality, but as he was an American citizen it seemed "not possible to

[1] When Montagu Norman was elected Governor for the seventeenth time, he broke all records, and the Bank of England departed from an ancient tradition. Just as every Alderman of the City of London to this day still carries the City mace in his haversack and will one day become Lord Mayor, so formerly every Director of the Bank had the prospect of eventually becoming its Governor, provided his colleagues considered him suitable for the post and he lived long enough to reach his turn. It was Montagu Norman who, in 1925, brought England back to the Gold Standard, and when he saw that it was impossible to remain on it, dropped it again in 1931.

[2] See also page 263.

offer him any of the marks of distinction usually bestowed upon subjects." Asked what he would like, he begged for a personal letter from Her Majesty; and Victoria wrote to him appreciating "the noble act of more than princely munificence . . . an act, as the Queen believes, wholly without parallel," and this letter, which is deposited in the Peabody Institution in South Danvers, the banker's native town in Massachusets, was accompanied by a miniature portrait of the Queen. George Peabody, whose seated statue stands at the back of the Royal Exchange, is probably the only banker to whom a monument, and within the City boundaries at that, has been erected.

HELBERT, WAGG & CO. (merchant bankers), established about 1800 and turned into a limited company in 1919, preferably undertake transactions connected with industry. Its directors include Alfred Ralph Wagg and Sir Max Bonn[1] who also have seats on the boards of several leading industrial concerns (and in addition of Investment Trust and Insurance Companies).

Important relations with Irish industry are maintained by GUINNESS, MAHON & CO. (bankers; established in 1836) who also have considerable connections with the United States, and were for a time in specially close touch with Ladenburg, Thalmann & Co., of New York.

M. SAMUEL & CO. (founded in 1931, becoming a limited company in 1920) are mainly occupied in mercantile and industrial transactions. The son of the founder, Marcus Samuel, who possessed an artist's gift for giving shape to his visions, in a relatively short time evolved from a merchant, first in shells, then in rice and general produce, into a typical representative of creative commercial activity on a grand scale; together with J. L. Mackay (Lord Inchcape), William Lever (Lord Leverhulme), Sir Ernest Cassel—to a certain extent Samuel Montagu (Lord Swaythling) also

[1] A son of William Bonn, who was the first representative in New York of the Speyers, and assisted there in the formation of Speyer & Co. in which firm he was a partner. Sir Max was a partner in Stern Brothers and afterwards in Bonn & Co. (merchant bankers) who in 1921 amalgamated with Helbert, Wagg & Co.

belongs to that class—Marcus Samuel was one of the great organisers of the world relations of England. His business and personal rise is pleasing evidence of the fact that in this country genuine ability still has the chance of winning through, and that even in our age romance has not died out in the City. When in 1891 he made his unnoticed entry into public life as Alderman of the poor Ward of Portsoken and was admitted into the Guildhall, he was not the only one who had appreciable doubts as to whether he would be received by the wealthy and proud aldermanic body on terms of equality. Seven years later, however, he was knighted, became Lord Mayor of London and was made a Baronet in 1903, raised to the Peerage as Lord Bearsted in 1921, and in 1925, two years before his death, became Viscount. In 1897 he had transformed his trading company into an oil company, but in filial piety he had taken its name—Shell Transport & Trading Company—from the first article his father had dealt in. When in 1907 he consolidated its interests with those of the Royal Dutch, Marcus Samuel became the creator and head of the powerful Anglo-Dutch oil trust whose interests embrace the whole globe, and whose only rival is Rockefeller's Standard Oil Company. He was amongst those who collaborated most successfully in placing England into a leading position in the oil industry of the world, and during the war, an official vote of thanks from the Admiralty in 1915 appreciated the "services of the utmost importance to the fighting forces" which he rendered when, thanks to his brilliant organisation, he kept the Navy supplied with every form of petroleum and petroleum products at every seat of war. A refinery in Rotterdam, which had installations such as did not exist in England, was dismantled by him and in the shortest possible time re-erected near Bristol, and so was averted what might have turned out a dangerous shortage of high explosive. In the course of extensive travels in the Far East Marcus Samuel became one of the discoverers of Japanese commerce; in close association with the Government

at Tokio he was the first to introduce the land of the Rising Sun to the London Stock Market.

Thanks to their affiliation with their New York and Paris houses LAZARD BROTHERS & Co. (merchants; founded in 1877, and turned into a limited company in 1917) rose to the utmost importance. Their international reputation was further increased when Lazard Frères, Paris (established in 1854) came to a sort of working agreement with the Banque de Paris et des Pays-Bas. Large orders from the French Government during the considerable fluctuations of the Franc repeatedly brought Lazards into the centre of events in the foreign exchange market. The Hon. Robert H. Brand,[1] one of the Managing Directors of Lloyds Bank and *The Times* Publishing Company, is familiar—from the days when he was (in 1902) Secretary to Lord Milner in South Africa—with the finance of other countries and parts of the world; he was financial adviser of a great number of Commissions, and exercises—as does also Sir Robert Kindersley, the Chairman of Lazards, a director of the Bank of England and Governor of the Hudson Bay Company—a great influence in the City.

By reason of their international business these merchant bankers have always been in the closest touch with the other money centres and stock-markets and were, in the past perhaps to a greater extent than to-day, possessed of the most exact and detailed information as to all political, financial and economic happenings all over the commercial world, and—more important still—they knew the best-kept secrets. A fine flair for future developments frequently enabled them to make arrangements which caused astonishment at the moment, but subsequently turned out to have

[1] Robert H. Brand is a son of the second Viscount Hampden and 24th Lord D'Acre, a Barony which dates back to 1321. The late Hon. Mrs. Brand (Miss Phyllis Langhorne of Virginia, U.S.A.) was a sister of Lady Astor, M.P., and of Mrs. Charles Dana Gibson.

been justified. It is they who, with other leaders of mercantile London, and with the express exclusion[1] of the bankers proper, compose the Board of the Bank of England. Thanks to the position they occupy, they are able to obtain the fullest possible knowledge of the position of the market, to get an insight into the intentions of the various bank managements, and to be informed of the financial projects of the Government—and never yet has a shadow of a suspicion fallen on any one of them of having made use of the knowledge gained as a director of the Bank of England for his own business purposes. By means of the special information at their disposal they were, on the other hand, at all times prepared to render most important services to the community at large—by giving warnings, for often the greatest merit lies not in propounding, but in preventing.

[1] Neither bankers in the strict sense nor directors of joint-stock banks are eligible, but bankers in the broader, Continental meaning, such as merchant bankers, are. Samuel Jones Loyd, the great power behind Peel's Act and therefore one of the makers of the Bank of England in its present form, could not, being himself a banker proper, become a member of its board.

THE TWILIGHT OF THE GODS

AUSTRIAN CREDITANSTALT—DANATBANK

SOME of the most valuable of the Creditanstalt's branches passed after the Great War into the hands of the successor States—Austria herself had become a mutilated body[1] without hope of eventual recovery. In spite of this a policy of prestige, even of imperialism, was carried out, which finally ended in a catastrophe for the country and its banks.

The newly formed countries, carved out of the Hapsburg Monarchy, were ruled in accordance with strongly nationalistic principles, and were anxious to have as little as possible to do with their former capital. In Vienna, however, every available power was mobilised in order to maintain its traditional position as the centre of the Danube countries; this could only be brought about by continuing to finance industries outside Austria, and the Creditanstalt granted long term credits all over the nearer Balkan States, and even forced them on more or less willing borrowers. In order to obtain the necessary funds, the bank accepted from the whole world money on short terms. The difference between the interest rates brought considerable profits which were, however, fictitious, as one debtor after another became insolvent.

All the Austrian banks, with the exception of the Escompte Gesellschaft and the Wiener Bankverein, carried on this policy which had been initiated by the Creditanstalt and which caused the collapse of them all.

The trade balance of Austria tended more and more towards the liability side, and in order to regularise the

[1] Vienna was until 1918 the capital of a state embracing a population of nearly 53 millions; at the conclusion of the war Austria's population was under 6,800,000.

position to some extent, the country was forced slowly to sell a comparatively large block of foreign securities—the foreign investments of the Creditanstalt. What was unsaleable—the leavings—was retained with the assistance of foreign capital.

From week to week the position grew visibly worse; in order to avoid the complete collapse of the Boden Kredit Anstalt, the consequences of which would have been even worse than the break-down of the Creditanstalt, it was in 1929 taken over by the latter. A year later the Creditanstalt had itself reached the end of its resources; its portfolio had become an omnium gatherum of irrecoverable claims. The State was compelled to intervene and give a guarantee for all current transactions, for the credit of Austria was bound up with the credit of the Creditanstalt. Rothschilds, who held an influential parcel of the now almost worthless shares, put considerable sums at the disposal of the Government for the purpose of the salvage operations.

This catastrophe, which immediately afterwards made its effect felt in Germany also, was not, however, the end of the sorrows of the Austrian banks. In spite of everything, the authorities were not yet prepared to give up the idea of a bank of international importance, and the banks which had remained solvent, the Escompte Gesellschaft and the Wiener Bankverein, were sacrificed; their assets were to bring new strength to the exhausted Creditanstalt, and for this purpose they were merged with it in 1934. Since then its name has been Oesterreichische Creditanstalt-Wiener Bankverein, and at present it does not cast even a fraction of its former shadow.

The Revolution of 1918, the inflation during the post-war period, and many other things besides came to Germany —ex oriente lux!—from the East, and the same is true of the Bank Krach of 1931. The characteristic collapse of

the Creditanstalt was followed by the still more characteristic collapse of the Danatbank, the big bank which had been formed in 1921 by the union of the Darmstaedter Bank and the Nationalbank fuer Deutschland.

After the Great War the management of the Nationalbank was in the hands of Dr. Schacht[1] and Jakob Goldschmidt, who rapidly and brilliantly rose to be one of the most interesting and strongest characters amongst German bankers of the post-war period. Most extensive banking, industrial and shipping mergers were carried through, which powerfully affected the whole financial structure of the country, and yet from a geographical standpoint the organisation at the back of the central office was of slight importance; far more, though it did not make full use of it, belonged to the Darmstaedter Bank, which had in addition a great and valuable name.

In 1921 an agreement was entered into which constituted for ninety-nine years a community of interests between the two banks, the Darmstaedter and the Nationalbank, and which was the foundation of the largest (although only from the point of view of figures),[2] but by no means the strongest banking concern in Germany. When the name —Danatbank—was chosen, the Darmstaedter as the venerable and respected institution was given pride of place; the brains, however, came from the Nationalbank, and the management passed into the hands of its active and efficient leaders. Unfortunately the required mutual understanding was missing; Goldschmidt and Schacht, both strong men but differing from each other in every fundamental, could not for long work together, and still less side by side; each wanted to be master. Goldschmidt succeeded in obtaining the backing of numerous old and new holders of large blocks of the bank's shares, and when

[1] Schacht, who had been with the Dresdner Bank since 1903, joined the Nationalbank fuer Deutschland in 1916; he left in 1923 and was till 1930 President of the Reichsbank; his second period of office as such began in 1933.

[2] In 1919 the capital of the Darmstaedter Bank was 192, that of the National bank 100 million Marks. The actual figures at the date of the merger in 1921 would be meaningless as it took place during the inflation.

Schacht left in 1923 in great resentment and took over the management of the Reichsbank, Goldschmidt was left sole head of the Danatbank.

The bank crisis in Germany could not have been avoided; nor did there remain the slightest hope of so doing after the debacle in Austria had opened the eyes of the whole world to the financial mismanagement prevailing in the defeated countries. But that the Danatbank should have been the institution to be abandoned to total collapse was unnecessary.

From the moment when the difficulties of the Norddeutsche Wollkaemmerei (North German Wool Carding Company), to which the Danatbank had allowed disproportionate credit (although other banks were larger creditors), became public property, a thorough and systematic attack on the bank and its leader began, and on the Stock Exchange every means was used to force its shares below par and consequently to the danger point for a bank which accepts deposits. Unless the Government intervened—but, badly advised it omitted to do so—a run, bound to take place sooner or later, had to start somewhere. The Danatbank was its first victim, and from here the trouble spread to all the other banks. Germany had not a solvent bank left: empowered to do so by decree (the great private banks which remained solvent being forced to do so) they all closed their doors. By the time they re-opened, the Reich had assumed the guarantee for all deposits; consequently there was not the slightest reason for allowing the Danatbank, and at the same time the great and splendid traditions of the Darmstaedter Bank which formed a great asset of German finance, to disappear from one day to the next without leaving a trace; there is no doubt that its position was seriously embarrassed, but at the same time it was not hopeless.

Although Schacht was not at the time in office,[1] yet his influence and that of the Deutsche Bank-Disconto Gesell-

[1] From 1930 to 1933 Hans Luther (Reich Chancellor in 1925 and 1926 and at present Ambassador in Washington) was President of the Reichsbank; on his retirement Schacht entered upon his second term.

schaft settled the matter. Promptly and even enthusiastically the unpopular, because more efficient, newcomer was destroyed, and in March, 1932, it was relentlessly decreed that the Danatbank should be taken over by the Dresdner Bank—whose position was by far the worse of the two. The Danatbank found no haven of refuge in the Dresdner Bank—it was in order that the latter might survive, might gather new strength from the great inheritance it received from the former Darmstaedter Bank, that the Danatbank was sacrificed.

The absence of energy and foresight on the part of the Government and the very opposite of solidarity on the part of the leading banks, paid a heavy penalty at the cost of German credit.

APPENDIX

PHILHELLENIC INTERLUDE

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Thomas Cochrane, 10th Earl of Dundonald, but who preferred to be known as Lord Cochrane, a man of infinite courage, resource and daring, and a brilliant sailor, was Admiral from 1817 of the Chilean Navy, from 1823 to 1825 of the Brazilian Fleet, and took a prominent part in securing the independence of these two countries as well as of Peru. In connection with the present volume, however, Lord Cochrane is of interest for another reason: he was, falsely as it turned out, accused of connivance in the notorious Stock Exchange fraud which, under the name of De Béranger Hoax, has been told so often and with technical details each so much more incredible than the other, that here it suffices to remind the reader that by means of a forged report of victory a great rise in the Funds was on the 21st of February, 1814, engineered on the London Stock Exchange which resulted in considerable profit to all concerned in the conspiracy.

It was alleged that Cochrane had been among those guilty of the falsification, and he was fined £1,000 and sentenced to twelve months' imprisonment and one hour in the pillory, but as Sir Francis Burdett (the son-in-law of Thomas Coutts, the banker) announced that if this were done he would stand beside his friend and serious disturbances would take place, the last item was remitted. His name was, however, erased from the Navy List.

After his brilliant successes in South America he held from 1827 to 1835 the command of the new Greek Fleet, but in this case it would seem that he navigated his ships with too much thought for financial interests; anyhow he achieved nothing great. But in 1832 he was at last reinstated as Rear-Admiral in the Navy.

This extraordinarily able but somewhat inscrutable man, the first to employ steam-power in warships, and who urged the adoption of screw-propellers, died in 1860, and was buried in Westminster Abbey.

DISILLUSIONMENT

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JOHN BAKER RICHARDS relates, " . . . It was agreed that £300,000 should be placed at the disposal of Pole & Co. the next morning, for which the bank was to receive, and did receive, as securities,

a number of bills of exchange and notes of hand; and, over and above, a mortgage on Sir Peter Pole's property, which was to ride over the whole.

"They fought it through till Thursday or Friday pretty manfully, and up to Saturday evening, when their position was such that, without the assistance of the same eminent individuals who had taken part before, the clearing would not have gone right. Sunday passed, and on Monday morning the storm began; and till Saturday night it raged with an intensity that it is impossible for me to describe. . . . The Bank had taken a firm and deliberate resolution to make common cause with the country as far as their humble efforts would go. In the following week things began to get a little more steady . . . and people began to be satisfied; and then it was for the first time in a fortnight that those who had been busied in that terrible scene could recollect that they had families, who had some claim upon their attention. It happened to me not to see my children for that week."

FRANCE

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LA HAUTE BANQUE PARISIENNE

Mallet Frères & Cie, like *de Neuflize & Cie*, who were established in about 1800, maintained strong relations, which are now slowly dying off (see lower down in this note) with the Banque de France and the big insurance companies. *Hottinguer & Cie*, for many years the bankers of the Russian Government, together with de Neuflize & Cie, collaborated in the financing of the American cotton and the Argentine wheat harvests.

Henrotte & Muller were allied with the diamond and pearl trade, and were amongst the founders of the Metropolitain (Underground); they failed in 1901.

Lehideux & Cie—like *Offroy, Guiard & Cie* (at present Guiard, André & Cie)—were great discounters of bills on merchandise; together with A. J. Stern & Cie, q.v., they belong to the Banque de Paris & des Pays-Bas group, but are also represented in the administration of the Crédit Lyonnais. To-day their activities are almost entirely confined to the administration of estates.

Very important was *Périer & Cie*, established in 1801 by the brothers Antoine-Scipion and Casimir-Pierre Périer; the latter was a great authority on finance, and in politics he was through his questions the terror of successive Ministers of Finance, an office which he himself held in succession to the banker Jacques Laffitte q.v. The house, which down to the war was very active in Turkish issues, is since 1918 known as Bauer, Marchal & Cie. (Incidentally,

according to French law a firm's name must be changed when there is no partner left bearing the original name.)

Still very prominent at the present time are *Vernes & Cie* (founded in 1832) whose partners are exclusively members of the family. *Mirabaud & Cie* (established in 1822 as Mirabaud & Puerari) specialise in mining undertakings, and in connection with many of these they work together with de Rothschild Frères.

Details as to further members of the Paris Haute Banque, such as Cahen d'Anvers, Lazard Frères and Heine & Co. appear at other places in this book.

Within this Haute Banque Parisienne another, formerly very influential, sub-group has been formed—the Haute Banque Protestante, so called because it consisted mainly of Protestant immigrants —Mallet, Hottinguer, Vernes, de Neuflize, Mirabaud—but, curiously enough, also Heine & Cie. They formed a close group, and their unity was further shown when in 1904 they formed the Union Parisienne, which was to be a kind of opposition to the Banque de Paris et des Pays-Bas group. All these Protestant banks, however, have lost much of their old importance. Their greatness was due that they were in a majority on the boards of the big railway and insurance companies, having inherited these seats from their fathers and grandfathers. This, of course, also brought them a certain amount of business. Until its recent reform they held in addition by inheritance the majority of the seats on the Board of the Banque de France. But it is more than probable that the loss of these seats will also gradually entail the loss of their positions in the railway and insurance companies.

LA DÉBÂCLE

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THE *Amsterdamsche Bank* was founded in 1871 by the Darmstaedter Bank. The *Credit Suisse* (Schweizerische Kreditanstalt) in its original form goes farther back; it resulted in 1856 from the amalgamation of two banks in St. Gallen and Zurich, joint-stock banks with the right of issuing notes, of which considerable numbers were constituted in Switzerland between 1830 and 1840.

The head of the *Swiss Bank Corporation* (Schweizerischer Bankverein; established 1872) was I. I. Schuster Burckhardt. Thanks to his great intelligence and his charming personality he rose from very small beginnings quickly to a high position and came to be one of the most influential financiers on the Continent. As partner of the great Swiss bankers, Von Speyr (he had married Miss Von Speyr), Schuster took a considerable part in all big Franco-Italian financial affairs, was a leading spirit in the Wagon-Lits Company, one of the

founders of the Banca Commerciale Italiana, and Chairman of the Basler Bankverein, which absorbed the Basler Handelsbank. After that amalgamation the institution took the name of Swiss Bank Corporation.

The *Banca Commerciale Italiana* did not come into being till late, in 1894; all the then existing German Banks took part in the formation —the Deutsche Bank, the Disconto Gesellschaft, the Darmstaedter Bank, the Berliner Handelsgesellschaft, A. Schaaffhausenscher Bankverein—with the exception of the Nationalbank fuer Deutschland which was interested in the Credito Italiano (established 1870 as Banca di Genova, 1895 converted into Credito Italiano).

BERLIN

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M. M. WARBURG & CO., HAMBURG

THE *Warburgs*, a family whose members in the past and in the present have great achievements in commerce, art and science to their credit, had for a century been settled in the neighbouring (not Hamburgish) Altona before they established in 1798 in Hamburg itself the Banking house of M. M. Warburg & Co. which, as late as about 1850, was not yet very great, but enjoyed an extraordinary reputation and a corresponding credit. They reached their very high, at times outstanding, eminence during the last twenty years of the past century, simultaneously with the growth of Kuhn, Loeb & Co., of New York, with whom they stood at times in a personal union and family relationship. Max Warburg *is* one of the shrewdest and most capable heads in Germany, whose services to the commercial and seafaring community of Hamburg are undeniable, and *was*, down to 1933, one of the financial leaders of his country, the most prominent banker of his city and a member of the General Council of the Reichsbank,—Paul M. Warburg of New York was originally, as was also Felix Warburg, a partner in Kuhn, Loeb & Co. With magnificent success he carried through in 1913 the reorganisation of the American banking system, at which he had, together with Senator Aldrich, been working since 1911, and thus most thoroughly consolidated the currency and finances of the United States. When President Wilson in 1914 appointed him a member of his newly-created Federal Reserve Board, he resigned all his trusteeships and directorships; he kept this official position till 1918, and then returned, as Chairman of the International Acceptance Bank, to private business.

MONEY POWERS IN AND FROM FRANKFORT

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THE still existing firm of *Gebrueder Schuster* was founded in 1786 and traded in cotton goods, mainly with England. When after the occupation of the town Napoleon enforced in Frankfort also his Berlin Decrees which placed very heavy penalties on commerce in English goods, several members of the family in 1808 emigrated to England.

Joseph Samuel Schuster remained in Frankfort and continued to carry on the firm as a banking business pure and simple. His son Francis Joseph Schuster followed his other relatives to London, when in 1866 the town had been annexed by Prussia, and he became a partner in Schuster, Son & Co., merchants and bankers of Cannon Street who in 1887 were absorbed by the Union Bank of London. Sir Felix Schuster, Bart., one of the greatest authorities on banking and finance in England, of whom a more detailed account will be found in a special chapter, was the son of Francis Joseph.

Although they cannot perhaps be included amongst the very great, yet for several decades the *Ladenburgs* played a considerable part in Germany and abroad.

The house of W. H. Ladenburg & Soehne was founded in Mannheim in 1785 (originally as jewellers) and occupied an important part in the industry of South Western Germany. When, in 1903, they surrendered their independence, their organisation and their connections became the foundation of the Sueddeutsche Disconto Gesellschaft, which in turn was absorbed by the Disconto Gesellschaft (now Deutsche Bank-Disconto Gesellschaft).

In Frankfort the Ladenburgs had been established since 1813. E. Ladenburg, founded in 1852, had a very good reputation, but were never really great and never quite independent, being controlled first by the Mannheim house, and subsequently by its successors.

W. Ladenburg & Co., founded in London in the early 'fifties, came to be a merchant banking and acceptance house of high standing, and went into liquidation in the middle of the nineteen twenties.

The sole survivor of the family concern which at one time was of international renown, is the very important Ladenburg, Thalmann & Co., in New York, who for a time were controlled by S. Bleichroeder, Berlin.

Raphael (von) *Erlanger*, whose father migrated to Frankfort in 1816, was in his early days an employee, and subsequently the confidential representative of the Rothschilds; of good appearance and address, he was excellently fitted to relieve his chiefs of a part of their social duties, and the business connections which he acquired in this way enabled him to start on his own account; von Erlanger &

Soehne waxed great and important, had constructive abilities, but were not always lucky. In the promotion business they specialised in banks (see page 208), railways and foreign loans. Their merger in 1904 gave a strong indication to German private bankers in general to what extent their days were numbered.

Of the four sons of Raphael von Erlanger (who in 1860 received titles from Portugal and Saxe-Meiningen and in 1871 from Austria) Wilhelm took no share in the business; Ludwig managed the original house in Frankfort, and Viktor opened a branch in Vienna which was wound up in the early 'nineties.

Frederic Emile (the father of Baron Emile Beaumont, the chairman, and of Baron Frederic, the vice-chairman of Erlangers Ltd.) came to London by way of Paris in 1859. The experience gained by Baron Frederic Emile in the French capital, where in the heyday of the Crédit Mobilier (for whom the Frankfort Erlangers acted as agents in Germany) big risks were taken all round, induced him to proceed more slowly and more cautiously in London, and consequently the firm succeeded in making its way. Turned into a limited company in 1928, Erlangers are to-day among the pick of international banks in the City.

Gebrueder Sulzbach, formed in 1851 by Siegmund Sulzbach, originally a stock and share dealer and publisher of a Stock Exchange list, was brought to very great importance as an issuing house by the founder's brother, Rudolph Sulzbach, who, most shrewd and most active, rose to great eminence in the German banking world, as co-founder of the Mitteldeutsche Creditbank, the Deutsche Hypothekenbank, the Deutsche Bank, the A.E.G. (Allgemeine Elektricitaets Gesellschaft) and of numerous railway companies at home and abroad. Moritz Sulzbach, a son of Siegmund, was the founder of M. S. Sulzbach, in Paris, who carried on a stock and share and an arbitrage business, but retired a few years before the war and thereafter confined themselves to the administration of their own fortunes.

FRANKFORT AND AMERICA

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THE chief alliances between German and American banks were:—

Lazard Speyer-Ellissen & Co.	Speyer & Co.
Seligmann & Stettheimer (see page 263)	J. & W. Seligmann.
Deutsche Bank in its American transactions allied in part with Jacob S. H. Stern, in part with Lazard Speyer-Ellissen & Co.	Speyer & Co.

Disconto Gesellschaft	Kuhn Loeb & Co., whose chief partner Jacob H. Schiff was a Frankfort man.
Darmstaedter Bank	Hallgarten & Co., whose partner, Henry Budge, had become a citizen of Frankfort before he migrated to New York.
S. Bleichroeder	Ladenburg, Thalmann & Co.
	The great American banking house of August Belmont & Co. was controlled by the Rothschilds.

The only exception was the alliance between

Dresdner Bank	J. P. Morgan & Co.

EGYPTIAN DARKNESS

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Viscount D'Abernon. Sir Edgar Vincent, a young guardsman who left the Army for the Diplomatic Service, has held a considerable number of offices and has filled them all with outstanding success. In 1882 he represented England, Holland and Belgium on the Council of the Dette Publique at Constantinople, and when a year later he was elected President, he had just reached the age of six-and-twenty. From 1883 to 1889 he was Evelyn Baring's financial adviser, a post which was equal to that of Egyptian Finance Minister. "He was eminently resourceful," reported his chief; "during the blackest period of the Egyptian financial chaos he was always ready with some ingenious device to stave off the evil day of bankruptcy, and thus to gain breathing time during which the financial ship would, at all events, have a chance of righting herself."

From the Nile Sir Edgar went back to the Bosphorus, not in official capacity this time, but (from 1889 to 1897) as Governor of the Ottoman Bank which, like Egypt, was under Anglo-French Condominium, and accordingly was constantly the subject of a struggle for the predominating influence. From that time on Vincent's chief activities have been in connection with finance; he took part in the opening up of the gold mines on the Witwatersrand through his interest in Julius & Arnold Friedlaender, one of the smaller South African groups, and held important directorships, and yet he never liked to be described as a financier. The crowning event in the career of this man of great intellectual power and gifts for administration, who in 1914 was raised to the Peerage as Lord D'Abernon, and became Viscount in 1926, was his Ambassadorship in Berlin from 1920 to 1926.

COUNCIL OF FOREIGN BONDHOLDERS

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Henry Labouchere, a grandson of the great Pierre-Cesar Labouchere, of Hope & Co., and a great-grandson of Sir Francis Baring, of Baring Brothers, was a wealthy man, with important financial interests, concerned in a brewery in Windsor, the bank of Williams Deacons & Co. and in the *Daily News*.

In addition to this he was a great speculator, and was particularly hard hit in 1875, when he had a big bear position open in Egyptian Stocks which rose considerably after the deal in the Suez Canal shares.

The financial articles appearing in *Truth*, which he generally wrote himself, were much read, and the tips given were widely followed. That he wrote favourably of shares of which he was a bull and unfavourably of such of which he was a bear, still further increased the popularity of his comments, and he quite frankly admitted this kind of journalism which at the present time would meet with less appreciation; "what greater proof can I give of my belief in the shares I write up than buying them? Or what stronger evidence can there be of my disbelief in a share than my selling it?" When it became known that Labby had settled down and ceased to speculate, so that his recommendations were no longer backed by his own money, his influence and that of his *Truth* articles appreciably declined.

Sir Henry Drummond Wolff. The combination of names—Wolff and Drummond—is in itself peculiar; his father, Joseph Wolff, was a divine—in the Catholic Apostolic (Irvingite) Church, which he inaugurated in conjunction with Edward Irving and Henry Drummond, the politician and founder of the Professorship of Political Economy. Sir Henry's mother was, before she became Lady Georgiana Wolff, Lady Georgiana Walpole, a daughter of the 2nd Earl of Orford (whose father, the 1st Earl, was a first cousin of Horace Walpole, of Strawberry Hill, the author).

In Drummond Wolff, therefore, the offspring of a Jewish born missionary and a member of the old aristocracy, were united the intellectual qualities of the Jewish and the Scottish race. Clever and witty, a little too versatile perhaps, but a man who would always count, he had an astounding and brilliant career as diplomat, financier and parliamentarian.

His first venture in business was the International Land & Credit Company (an account of which is given in the chapter "England

stepped in"). Subsequently he specialised in finance in the Near East, where he also carried out the greater part of his diplomatic missions. In Egypt he was in 1876 with Goschen, and from 1885 to 1886 as British Commissioner; in Constantinople in 1885 with special reference to Egyptian affairs.

In the course of a stay as British Envoy in Teheran (1887–1891) he managed to carry through a banking promotion on a grand scale; Baron Reuter (see lower down in this note) had in 1872 secured a concession granting an almost complete monopoly of the economic life of Persia, but it was in such vague terms that no one had been able to take advantage of it, and in addition it was to be feared that Russia might raise difficulties. It was only after it had come into the capable and practised hands of Sir Henry that the concession took on a workable shape, and with the co-operation of Baron Reuter, Glyn, Mills & Co., J. Henry Schroeder & Co. and David Sassoon & Co. the Imperial Bank of Persia (at present Bank of Iran) was formed, which subsequently became of such importance in international finance.

The crowning event of Sir Henry Drummond Wolff's diplomatic career was his Ambassadorship in Madrid (1891–1900) during which commercial attachés to the British Missions abroad rose to eminence.

As Parliamentarian he also made his mark; together with Lord Randolph Churchill, Arthur J. Balfour and Sir Eldon Gorst (whose father Sir John was Lord Cromer's successor in Egypt from 1907 to 1911), all Tory freelances, he formed the Fourth Party which was so efficient and functioned so amusingly, and it was his ingenious mind which in 1883 conceived the idea of the Primrose League.

The name of *Reuter* is a household word in every part of the world where men read newspapers, or are by their profession made dependent on rapid information; though to-day controlled by the Press Association, the great undertaking still keeps the name of its founder, Paul Julius Reuter, who himself must be included in the ranks of cosmopolitan financiers and concession owners of the past century.

Born in Cassel, he was a bank clerk in the Hanoverian Goettingen when he made the acquaintance of Karl Friedrich Gauss, who since 1833 had been experimenting with his electro-magnetic telegraph. The very shrewd Reuter recognised that something might emerge here which was suited not merely to the carrying of messages from sender to addressee, but also to the conveying of information and news collected at one point in the quickest way to another, and in 1849 he founded in Aix-la-Chapelle, where the French and the Prussian telegraph lines met, a foreign news agency. After the completion of the Dover–Calais cable the main office was transferred to London, but here also success was long delayed; it came

with a suddenness and to an extent which atoned for all waiting when in 1858 *The Times* published, as a Reuter communication, the report of Napoleon III's important political conversation with the Austrian Ambassador Baron de Huebner (which induced James de Rothschild to parody the Emperor's former "l'empire c'est la paix" into "l'empire c'est la baisse"). Now all newspaper offices, followed by the great commercial undertakings, first in England, then all over the world, subscribed to Reuter. In order to obtain more rapidly market prices and economic, political and general news, concessions were acquired to establish telegraphic connections where they did not already exist—as for instance with Russia and with America. So that during the Civil War the news brought by steamers from the United States might be known a few hours before they landed in Liverpool, Reuter in 1866 installed a cable in Ireland from Cork to Crookhaven.

The story of the important charter which Reuter obtained in 1872 from the Shah of Persia, and which eventually, twenty years later, led to the promotion of the Imperial Bank of Persia, has already been told in the note about Sir Henry Drummond Wolff.

Amongst the many concessions which Reuter had acquired was one from Greece for the construction of a railway from the Piraeus to Larissa, which also lay dormant for a long time. Leopold Joseph, who had joined Reuter's in 1895, and is now the head of the highly respected merchant bankers, Leopold Joseph & Sons, saw a favourable opportunity for exploiting it in 1897 when the Graeco-Turkish War was over and the Bank of England, together with the Bank of France and the Bank of Russia made a loan to Greece at 2½ per cent. With the co-operation of Pauling & Co., who were closely associated with the Erlanger's, the necessary funds were raised, and the railway was built. The proceeds of the Greek 4 per cent. Railway Loan of 1902–1904, offered by Hambros and Erlanger's at 83⅓, were used to reimburse the money advanced by Reuter's and by the banks.

The Duke of Saxe-Coburg had in 1871 given a hereditary title to Reuter, and a special grant of Queen Victoria secured to him and his descendants the privileges of his rank in England, and accordingly the man who by birth was Israel Beer Josaphat, became Baron Paul Julius Reuter. He died in 1899.

BISCHOFFSHEIM & GOLDSCHMIDT

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Guatemala, 1869, £500,000 6 per cent at 70 }
Uruguay, 1871, £3,500,000 6 per cent at 72 } both defaulted 1876.
Paraguay, 1871, £1,000,000 8 per cent at 80, the price to the Government being 64;
1872, £2,000,000 8 per cent at 85, the price to the Government being 73.
Both loans defaulted in 1874; all interest paid to that date came out of the proceeds of the loans.

Santo Domingo :—

1869, £757,000 6 per cent at 70, issued by Peter Lawson & Co. The issue was not supported by the public and was disposed of, at from 55 to 50, to Bischoffsheim & Goldschmidt who subsequently unloaded it on to the public. The Loan went into default in 1872.

Costa Rica :—

1871, £500,000 6 per cent at 72,
£500,000 6 per cent at 74,
issued by Bischoffsheim & Goldschmidt.
1872, £2,400,000 7 per cent at 82,
issued by Knowles & Foster.
Both loans went into default in 1874.

Honduras :—

1867, £1,000,000 10 per cent at 80,
issued by Bischoffsheim & Goldschmidt.
1869, £2,490,108 6⅔ per cent at 75,
issued by Dreyfus & Co.
1870, £2,500,000 10 per cent at 80,
issued by Bischoffsheim & Goldschmidt,
all three loans defaulted in 1872, the interest down to that date having been paid out of the money borrowed.

SIR ERNEST CASSEL

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Sir Sidney Peel Bart., (son of the Speaker and first Viscount and a grandson of the great Prime Minister), is a man of pronounced financial gifts which he repeatedly exercised in the service of the

Foreign office; he succeeded Esher as one of Sir Ernest's chief helpers, and at present holds several directorships in Companies founded by Cassel.

Viscount Esher (Reginald Brett), able, cultured, the wielder of an elegant pen, of such varied attainments that he was actively engaged in art, literature, history, politics, military organisation and finance, somehow managing to understand something of each of these subjects, and in addition through his wife, Miss Van de Weyer, the granddaughter of Joshua Bates, of Baring Brothers (see page 32) very wealthy, acted from 1902 on as Sir Ernest Cassel's right hand man. As an obliging and courteous go-between he was in his element, but his desire in no circumstances to be tied down, which in politics induced him to refuse every high office that was offered him, was stronger than his anxiety to make money, and as, besides, he felt thoroughly uncomfortable in the City—"accursed business" and "tiresome detail" are his own words—he severed his connection in 1904 as "he could not grasp the intricacies of high finance." His City activities had not met with general approval, and as he belonged to the innermost circle round the King, was the head of the Defence ("Esher") Committee, and at the same time maintained close relations with the finance, he was accused of exercising undue influence and of holding an unconstitutional position.

Lord Farquhar (Horace Brand F.), from 1900 to 1907 Master of the King's Household and from 1915 to 1922 Lord Steward, was, prior to these appointments, a banker and partner in Sir Samuel Scott Bart. & Co. which was founded in 1824 and in 1894 absorbed by Parr's Bank (which in its turn in 1918 became merged in the Westminster) to whose board he belonged from 1894 to 1915, and amongst others he was also a director of the London & South Africa Exploration Company; together with Sir Julius Wernher he acted as trustee for the Rand Mines Debenture holders.

His business activities were extraordinarily successful, so that his advice, like that of every successful man, was often sought and followed. At his instigation Lord Macduff before he became the son-in-law of Edward VII and Duke of Fife, had taken a very profitable part in banking affairs, and was, with Cecil Rhodes, Alfred Beit and others, one of the founders of the British South Africa (Chartered) Company.

After Edward VII had ascended the throne, he asked Farquhar to modernise the arrangements at Court which, under the Queen, had become altogether too old-fashioned, and to organise them on proper business lines.

In this way—a sufficiently rare occurrence—a banker became a courtier (whilst in France the more usual thing is for a courtier to become a banker).

SIR FELIX SCHUSTER, BART.

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James Lyle Mackay (Lord Inchcape) went to India in 1874 as clerk in the P. & O. Company, and eventually rose to be its President. He created one of the greatest commercial organisations in the Far East, founded and conducted important Anglo-Indian business houses (amongst them Mackinnon, Mackenzie & Co., in Calcutta and London), whose operations extended to China and Australia. He was always ready to act as the adviser of the Indian Government, concluded treaties with China and Mexico, and took a leading part in Commissions whose activities covered the whole sphere of the administration. His powers for work seemed boundless, and in addition to his own companies, he sat on the Boards of many others, amongst them the Suez Canal Co., the P. & O., the Atlas Assurance, the Royal Bank of Scotland and the National Provincial Bank, and was a Director of the Bank of England. After the war he undertook on behalf of the Government the sale of all standard ships built during the period of hostilities; he realised the sum of £35,000,000 at a total cost of—£850. He disposed of the surrendered ex-enemy ships for £20,000,000, the expenses amounting to 2/7¾d. per £100.

This extraordinary man was the recipient of extraordinary honours; in 1911 he was raised to the Peerage, became Viscount in 1924 and Earl in 1929.

SIR ROBERT HERRIES

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ROBERT HERRIES, a much travelled banker, in about 1768 conceived the novel idea of issuing what is to-day known as "circular notes." Thomas Coutts, who had taken Herries into partnership in the Edinburgh house of Coutts & Co., disapproved of the scheme.

Herries does not appear to have been too pleasant a collaborator; in spite of all his ability he was unable to work smoothly with his seniors, and disputed their right to nominate other partners for the Edinburgh branch; "he would not allow," he wrote to them, "any man to choose a wife for him; he had an equal dislike to a partner being chosen for him by anybody but himself," a point of view which is fully justified amongst equals, but appears somewhat presumptuous expressed by a junior to the actual head of the business.

It would seem, therefore, that other than tangible reasons must have played a part in the rejection of the circular notes, and Herries was allowed to depart without too much sorrow. He set up for himself

in St. James's Street in 1770, was knighted in about 1783, and the style of the firm became Herries, Farquhar & Co. in 1799. Sir Walter Rockliffe Farquhar, Bart., the head of the firm in the last decades of the nineteenth century, was a relative of Lord Farquhar (q.v.).

LLOYDS BANK

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SCOTTISH BANKS

THE combination of Scottish and London Banks has meanwhile made further progress.

The following affiliations took place:—

1918, National Bank of Scotland (1825) with	Lloyds;
1919, British Linen Bank (1746) with	Barclays;
1920 Clydesdale Bank (1838) with	Midland;
1923, North of Scotland Bank (1836) with	Midland.

so that only four Scottish Banks retain their independence:—

Bank of Scotland (founded in 1695);
Commercial Bank of Scotland (in 1810);
Union Bank of Scotland (in 1830), and
Royal Bank of Scotland (1746),

but there is a kind of working arrangement between them, and they do not compete with each other as regards rates or charges.

The Clydesdale was, in 1875, the first to cross the Tweed and "invade" London—the framers of Peel's Act, including Lord Overstone, had overlooked the possibility that the Scottish Banks might ever contemplate such a step. "It might seem odd," Lord Avebury remarked on one occasion, "that Sir Robert Peel did not anticipate that the Scotch banks *would* open branches in England, since geologists told us that even the fossil footsteps of their extinct animals point southwards." In order to counteract the invasion, Goschen drafted a Bill under which the Scottish Banks, following the example of the English joint-stock banks, would have to choose between having an office in London and the right to issue notes. The result of the lengthy negotiations was that the Government were "not in a position to adopt the principle of Mr. Goschen's bill," and the Scottish banks continued to issue notes, and one after another made their way to London.

The Royal Bank of Scotland (established in Scotland in 1727 by Royal Charter and in London in 1873 by Act of Parliament), in 1924 acquired Drummond & Co. (q.v.) and in 1930 Williams Deacon's Bank (which had, in 1771, been founded under the name of Williams Deacon & Co. and had in 1890 amalgamated with the Manchester & Salford Bank founded in 1836).

THE BIG FIVE

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THE CLEARING HOUSE

LIKE almost everything else in the organization of banking, the Clearing House, too, was not organized—it came into being accidentally in quite a natural way. When at least as far back as 1773 a number of young men, fond of their own comfort (a factor which must not be under-estimated in any kind of development) and quite definitely not urged so to do by their chiefs, met first at street corners and subsequently in public-houses in order to exchange in the most informal manner cheques which they considered it too much bother to deliver or cash at the respective offices, they had no idea of the importance of the machinery which they were setting in motion nor that it was through their action that the cheque would one day acquire its position in the commerce of the world.

It was not till 1810 that a house was rented in Lombard Street, and from that time on the hitherto very primitive exchange traffic was organized.

In 1842 there were 27 members, all private banks,

	ultimately absorbed by
Brown, Janson & Co.	Lloyds Bank
Hanbury & Co.	
Barnett, Hoare & Co., 1864 amalgamated with Hanbury & Co.	
Bosanquet & Co.	
Stevenson, Salt & Co., 1867 Bosanquet Salt & Co.	
Willis, Percival & Co., acquired by Capital & Counties	
Weston & Co.	Westminster Bank.
Jones Lloyd & Co.	
Denison & Co., 1864 absorbed by Consolid. Bank	
Hankeys & Co., absorbed by Consolid. Bank	
Vere, Lucadou & Co., 1859 amalgamated with Fuller, Banbury & Co.	
Fuller, Banbury & Co., 1891 merged in Parr's Bank	

Robarts & Co. Lubbock & Co., 1862 Robarts, Lubbock & Co. Barnard & Co., 1852 Dimsdale & Co. Prescott & Co., 1891 Prescott, Dimsdale & Co. Smith, Payne & Smiths Bank, 1902, amalgamated with Union of London Bank.	National Provincial Bank.
Barclay, Bevan & Co. Spooner, Attwoods & Co., 1864 acquired by Barclay & Co.	Barclays Bank.
Glyn Mills & Co. Dorriens & Co., 1842 merged in Curries & Co. Curries & Co., 1864 amalgamated with Glyn Mills & Co.	Glyn Mills & Co.
Stone & Co., 1852 Martin & Co.	Martins Bank.
Williams, Deacon & Co.	Williams Deacon's Bank.
Masterman & Co., 1865 Agra & Mastermans' Bank	
Price, Marryat & Co. Rogers & Co., 1866 English Joint-Stock Bank	Stopped payment in 1866.

Until 1854 joint-stock banks remained excluded, and even after their admission they did not become co-owners of the establishment; the number of the latter gradually grew less as absorptions proceeded, and the shares went over to the survivors, of whom at last there only remained four—Barclays, Brown, Janson & Co., Robarts, Lubbock & Co. and Smith, Payne & Smiths. The Clearing House was then acquired by a company, and the shares were distributed among all the banks who were members of the institution. The youngest member is the London and Provincial Bank which was admitted in 1914 and 1918 was merged into Barclays Bank.

To-day there are only 11 members of the Clearing House, two of whom are private banks: Glyn Mills & Co. and Coutts & Co., which latter did not obtain a seat until 1914 when they acquired Robarts, Lubbock & Co., and since 1920 they cannot correctly be included among the private banks, as they have become affiliated to the National Provincial Bank. The remaining nine are the Big Five (Barclays, Lloyds, Midland, National Provincial and Westminster) and the still independent National Bank, London, the

District Bank, and Williams Deacon's Bank, both of which have their head offices in Manchester, and Martins Bank in Liverpool.

The turn-over of the Clearing House gives better than anything else an idea of the enormous and unprecedented growth of Banking in England, and the extent which the use of the Banker's cheque has assumed. The figures are as follows:—

1868	figures first published	£2,313,084,000.
1908		8,417,270,000.
1918		15,906,267,000.
1919		21,409,823,000.
1929	(record year)	44,896,677,000.
1933		32,137,626,000.
1936		40,616,574,000.

The institution of the London Clearing House has been imitated throughout the whole world; in 1858 Sir John Lubbock (Lord Avebury) devised a scheme for country clearing, and in 1872 the Clearing House in Manchester was organized. Recently, in order to adjust the commerce of the world, which since the Great War has got out of hand, a system of international clearing houses is being considered.

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THESE 12,200 bank offices appear from the following table, which at the same time gives a picture of the home organisation of the Big Five, leaving out the private banks which have at most a few branches, and also the (Savings Bank like) Yorkshire Penny Bank (a very giant of its own kind with 934 branches, 3,020 banks for schoolchildren, and roughly £37 million in deposits.)

		Branches.
National Provincial Bank		1,340.
Westminster Bank	1,088.	
Ulster Bank	297.+	1,385.
Lloyds Bank	1,900.	
National Bank of Scotland	191.	2,091.
Barclays Bank	2,100.	
British Linen Bank	211.	
Union Bank of Manchester	169.	2,480
Midland Bank	2,140.	
Belfast Banking Co.	87.+	
North of Scotland Bank	161.	
Clydesdale Bank	207.	2,595.
Total number of home branches of the Big Five		9,891.

The independent English Banks:—			
National Bank (London)		269.	
Martins Bank (Liverpool)		555.	
District Bank (Manchester)		563.	1,387.
The independent Scottish Banks (see page 405):—			
Union Bank of Scotland		215.	
Bank of Scotland		257.	
Commercial Bank of Scotland		373.	
Royal Bank of Scotland	255.		
Williams Deacon's Bank	206.	461.	1,306.
			12,584.
There must be deducted from this the branches of Irish banks marked+ above, which are affiliated to one or other of the Big Five (87 + 297)			384.
Bank offices in England, Wales and Scotland			12,200.
In Ireland are independent:—			
Royal Bank of Ireland			81.
Hibernian Bank			114.
Provincial Bank of Ireland			128.
Bank of Ireland			158.
Northern Bank			186.
Munster & Leinster			212.
and dependent:—			
Belfast Banking Co.—Midland			87.
Ulster Bank—Westminster			297.
Bank offices in Ireland			1,263.
Inhabitants—Northern Ireland	1,300,000.		
Irish Free State	2,970,000.		
	4,270,000.		

so that in Ireland there is one bank office to every 3,390 inhabitants (as compared with one to every 3,688 in England, Scotland and Wales)

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